SALES MANAGEMENT

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Sales Management and Organisation

INTRODUCTION

'A good Sales Organisation is one where in the functions of departments have each been carefully planned and coordinated towards the objective of putting the product in the hands of the consumers—the whole effort being efficiently supervised and managed so that each function is carried out in the desired manner ' —**Cunliffe L. Bolling**

Sales are the life blood of business with the expansion of business, the size of the market to be covered to sell large quantity of goods becomes too large to be controlled by the owner of the business undertaking personally Hence there arises the need of sales organisation to perform the various functions These functions include market research product planning sales forecasting determination of selling policy, selection training, supervision, remuneration of the salesmen, etc In the chapter we shall discuss these various aspects of Sales Organisation

1 1 What is Scientific Management ? What are the essential elements of Management ?

SCIENTIFIC MANAGEMENT

Sales Management is concerned with the management of the selling function since it is concerned with the entire selling function it must follow that many of the activit es are the subject of separate chapters It is easy to think of management as a general term covering certain work in the business administration It is accepted that solicitors doctors, accountants etc must conform to certain rules of their professions and so too must management be guided by specific p inciples it is important that these are understood So that management ceases to be the result of personalities and instead is based upon recognisable fundamentals which are common to management in all its aspects Management s role can be as a responsibility combining four essential elements

(a) Planning
(b) Coordinating
(c) Controlling and
(d) Motivating

In practice these elements are concepts which applied to the different functions of the business, become adopted to its needs and are not so simple as they may appear

ELEMENTS OF MANAGEMENT

Planning

Planning is an essential element of management and will be carried out in all managements differing functions It is an answer to the question—"What must be done' and will determine also ' Who will do it and the conditions applying to the tasks The basic requirements of all plans are that

(i) They must be based on fact or upon rational assumptions
(ii) They must be realistic
(iii) They must be comprehensive
(iv) They must incorporate sufficient flexibility to allow for reasonable variation, and
(v) They must be known to all involved in carrying out the task

Application of Planning To be applicable the plan must be based upon extensive market research and the facts verified at every stage The plan should also be evaluated after investigating the total market for a particular type of product Flexibility must be provided by establishing a specialist production line to allow for variation to production The plan should also be subject to continual review The details of the plan should be discussed with all the departmental heads concerned and their subordinates who bear responsibility for fulfilling their parts of the plan

Coordination

Coordination is a concomitant of planning and may be described as the essence of management It does not have any special techniques but it is largely what a good manager makes it Nevertheless there are sound principles on which to develop skills It derives from the manager s personal sense of constructive cooperation and requires task understanding and guidance It has a special need to help the staff to see the total picture and to coordinate their activities with the rest of the team

(i) It will encourage direct personal contact within the organisation particularly in lateral relationships

(ii) The coordination concept must be fundamental to the business operations and will be basic to and arise from the planning element

(iii) It will encourage the free flow of information that is selective to the objectives of the business

(iv) It will see that no personal problems arising from the business operation are ignored but will endeavour to help through a free exchange of ideas

Coordination and Sales Management. Managing a team of salesmen presents particular problems of coordination Sometimes different departments are involved If the salesmen bring to the notice of the Sales Manager the complaints about the quality of the product, he has to consult the production manager

Controlling

Controlling arises from the activity of planning and ensures that set targets, budgets or schedules are attained It will instigate procedures to bring to light a failure to attain targets Sales managements role *in controlling is especially onerous as many of the targets* are the results of forecasts that are necessarily only predictions Salesmen s targets are also predictions based upon estimates of their faith coming sales The control system must

(i) Prepare sales and market forecasts
(ii) Determine the level of sales budget,
(iii) Determine the sales quotas for each salesman,
(iv) Continue the review and selection of distribution channels
(v) Organise an efficient sales force
(vi) Establish system of sales reparting
(vii) Establish system of statistical sales control
(viii) Establish stock control system,
(ix) Continue the review of performance of the sales force, and
(x) Establish periodical training programmes

Controlling the Sales Force In a big organisation each salesman is assigned a territory not so big that it cannot be adequately cover it Each salesman has a target set for specific period and from the weekly, monthly sales results a control system is established that will reveal whether a particular salesman is working efficiently

Motivation

Motivation is essentially a human relations concept It bears the responsibility to weld together distinctive personalities into an efficient team Motivation requires knowledge of human psychology as a means of understanding behaviour patterns If the members of a sales team are not motivated to the achievement of the goals of the company then the goals will not be reached

Interrelationship of the Elements

The four elements of management (planning coordinating, controlling and motivating) are interrelated and each exerts an influence on a particular management situation Managements skill is in recognition of the situation and in responding with the correct action to rectify the situation

1.2 What is Sales Organisation ? What is the importance of the Sales Organisation to a firm ?

DEFINITIONS AND MEANING OF SALES ORGANISATION

1 "A Sales Organisation like any organisation is a group of individuals striving jointly to reach certain common goals and bearing informal as well as certain formal relations to each other '

—Still and Cundiff

2 ' Sales Organisation is the planning direction and control of personal selling including recruiting selecting training equipping assigning routing supervising, paying and motivating as these tasks apply to the personal sales force '

—American Marketing Association

3 "An *organisation is a group of people operating willingly* and effectively to achieve a common objective. **—Ralph C Davis**

4 The object of Sales Organisation is not merely to sell goods to distributors but to get consumed or to get them into use directly or indirectly The Sales manager may employ Assistant managers Salesmen Agents Merchants Wholesalers and Retailers to sell his goods and those goods may pass through many hands before they reach to the consumers or users ' **—C.L. Bolling**

The above definitions clearly bring out the essence of Sales Organisation A sales organisation consists of human beings *work* ing together for the marketing of products manufactured by the firm or the commodities which have been purchased for resale

Sales Organisation is concerned with effective coordination of functions essential to achieve profitable sales. Its job is to provide

an efficient and economical administrative set up to ensure timely movement of goods from the firm's ware house to the ultimate con sumers on terms satisfactory to both buyers and sellers

NEEDS OF SALES ORGANISATION

The primary objective of any business undertaking, is to sell successfully the goods or services Sales are the life blood of business' When the undertaking operates on a small scale the proprietor is able to sell the entire output himself or with the help of a few salesmen under his direct control and supervision The need of the sales organisation does not arise But with the expansion of the business the expansion of the market there arises the need of sales organisation

These days goods are produced on large scale with complicated techniques to cater not only to the local markets but for the interna- tional markets When goods are produced in anticipation of demand to be sold in a growing competitive market the need of sales organi sation becomes self evident

The need of a sales organisation arises out of the following

(i) Demand for the goods has to created through competent salesmen

(ii) A congenial sales climate must be created through effective advertising

(iii) Orders received are to be handled promptly

(iv) Complaints of the customers are to be investigated into and if found genuine, are to be attended to the satisfaction of the customers

(v) Outstanding bills are to be collected

(vi) Production or purchase of goods has to be planned keeping in mind the market conditions

IMPORTANCE OF SALES ORGANISATION

(i) It greatly increases managerial efficiency—A good sales organisation ensures efficient working and substantial reduction in sales cost

(ii) It encourages specialisation—All the activities connected with sales are divided in divisions and sub-divisions It gives opportunity to the employees in specialising in their particular work or function

(iii) It improves the possibilities of rapid growth of the institutions

(iv) In the absence of an efficient sales organisation economies of large scale production and specialisation can not be enjoyed by the firm Production is dependent on sales

(v) The sales department performs very useful functions such as market research, product planning, sales forecasting and budgeting etc Which enhances the efficiency of the organisation and thus increases profitability of the firm

FUNCTIONS OF SALES ORGANISATION

The sales organisation performs many useful functions Some of the functions it has to perform are as follows

(a) **Routine work.** Among the routine works of the sales organisation are planning and determining sales policy, determining territories, coordination etc

(b) **Administration** Determining responsibilities coordination evaluation of performance, relation with dealers, selection of salesmen, training of salesmen, transfer, discipline, promotion, etc

(c) **Operative** Evolving sales policy, product planning, selling routine, sales promotion and appraisal of performance.

(d) **Clerical** Correspondence contact with customers and dealers, records reports

(e) **Specific work.** Market research, product planning, sales forecasting and budgeting cost control, etc

" Thus a good sales organisation is one where in the functions or departments have each been carefully planned and coordinated towards the objective of putting the product in the hand of the consumers the whole effort being efficiently supervised and managed so that each function is carried out in the desired manner "

1.3 Distinguish between Organisation and Management What are the various departments in an industrial organisation to keep control over the entire organisation ?

SALES ORGANISATION IS A PART OF A BIGGER ORGANISATION

When a company is formed, the top management consisting of directors and managing directors plans the programme of production and the mechanism of distribution. They keep control over the entire organisation This is made possible through the various departments of the organisation There are atleast four departments in an industrial concern. The officers incharge of these

departments get instructions from the top management who in turn get the work executed

1 **Administrative Department** First there is the Administrative Department under the charge of an administrative officer, manager or superintendent. The manager looks after routine matters relating to production and distribution in general as well as administrative matters, licences imports provident fund, payment of wages income tax and so on He works under the managing director

2 **Purchasing Department** A section of this department is responsible for purchasing raw materials required for production and another in buying the stores and spare parts required These are necessary for turning raw materials into finished products When machines are working in two or three shifts they get quickly worn out Obviously spare parts are required everyday by the production departments Purchasing sections are responsible to the managing directors and buy as per the general directions and specific instructions given to them

3 **Production Department.** There may be many sections in it Each section is in charge of a technical person For example in a textile mill there are production manager, a spinning master a weaving master, a dyeing master a finishing master, etc All these officers work according to the instructions of the Managing Directors who plan and direct the entire production programme

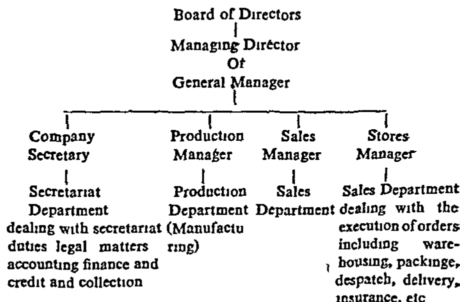
4 **Distribution of Products Department** This department is under the charge of a Sales Manager He is also responsible to the Managing Directors who plan and direct all matters relating to marketing or selling The sales force work under him

ORGANISATION AND MANAGEMENT DISTINGUISHED

Organisation' means a structure brought into existence, arranged into a system and put into working order

Management means the art of making an organisation work successfully Both are indispensable for a company which takes to manufacturing If the sales organisation is not efficiently managed profits will be less and satisfactory dividends cannot be paid to the share holders The Managing Directors will find it difficult to satisfy and reply to share holders in general meetings The success of a company depends on a very capable Sales organisation

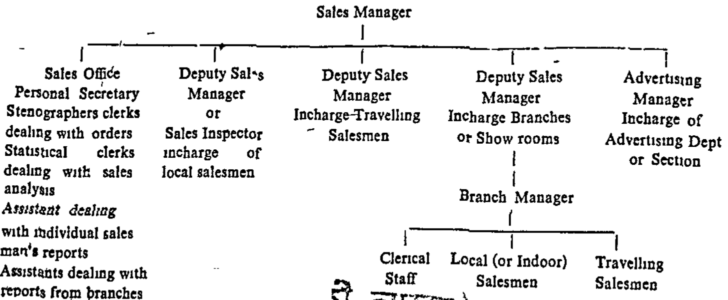
General Organisation of a Manufacturing Concern



Basis of a Sales Organisation The nature of a Sales Organisation is primarily indicated by the volume of production and the scale of business Sales organisation is but a branch of a whole tree The detacted arrangement will accordingly differ from business to business The manufacturers organisation will differ from that of a trader and importer and exporter s sales organisation is bound to different from that of a trader or a manufacturer If the business is on a small scale more than one functions are performed by one person In the case of a very small unit almost all jobs from production to sale are performed by a single individual

Cooperation and Coordination The general efficiency of the business depends on the efficient working of the different departments There must be proper cooperation and coordination among the various departments These departments are infact, separate only for the purpose of administrative convenience They are all a part of one business branches of the same tree If cooperation and coordination are lacking business will be ruined If the sales department is slack, the efforts and efficiency of the production department will be wasted If the sales and advertising departments are very active the production department must be able to cope up with their efforts and fulfil the production schedules. Similarly the production may be hampered by the slackness in the execution of

General Organisation of the Sales-Department



orders by the Storage department and by indifferent collection on the part of the Secretariat department

This cooperation is achieved by the Managing Director or the General Manager who coordinates the activities and duties of the different departments He holds periodical conferences of the departmental chiefs in order to arrive at a fixed programme Each department knows its task and knows how and where to cooperate with other departments

1 4 What are the different types of Sales Organisations Discuss the advantages and disadvantages of each type of organisation

NECESSITY OF SALES DEPARTMENT

The Sales department is only a part of the general business organisation A small business may not have a formal sales organisat on But most modern manufacturers will prefer to have their own sales organisation Some of the important reasons why it is desirable to have a formal separate sales organisation are as follows

(i) The people at the top may find more time to devote to planning and policy matters if selling is left to a formal organisation
(ii) It helps to divide and fix responsibility
(iii) Repetitive duties are easily avoided
(iv) Responsibility can be properly located
(v) A sales routine can be established based on actual experience
(vi) It helps to train and develop executives
(vii) It stimulates the efforts of those concerned with selling
(viii) Individuals have a scope for advancing in the organisation
(ix) It ensures proper supervision of the sales force
(x) It enables the working of policy formation planning and execution

Functions of Sales Planning The functions of sales planning are mainly market analysis distribution research coordination within the organisation coordination with outside distribution agencies policy determination in relation to price, credit and service sales statistics budgets and establishment of quotas The operations of sales is a highly developed function of the sales organisation It consists of selecting training stimulating and

supervising the sales force, payment to the salesmen, relations with distributors, control of branches, coordination of sales and advertising etc

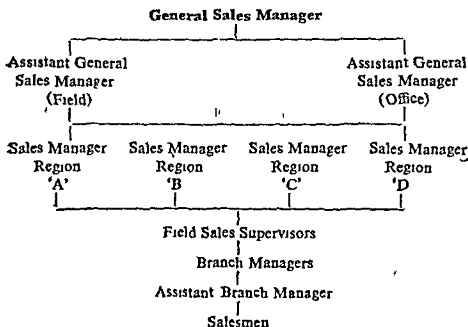
TYPES OF SALES ORGANISATION

Sales organisations could be

(i) Line type
(ii) Line and Staff Type
(iii) Committee Type
(iv) Territorial Type
(v) Trade Type
(vi) Product Type

(i) Line Type of Sales Organisation

Here the responsibility is centered in one man e g, the Sales Manager Authority flows downward in a straight line This can be seen in the chart below



Advantages

1 There are no delays in formulating policies and plans as well as their execution
2 The authority being centralised there is no confusion in fixing responsibility which can not be shifted

3 It helps developing strong executives and gives ample opportunity to really capable persons

4 This is most commonly used type of Sales Organisation.

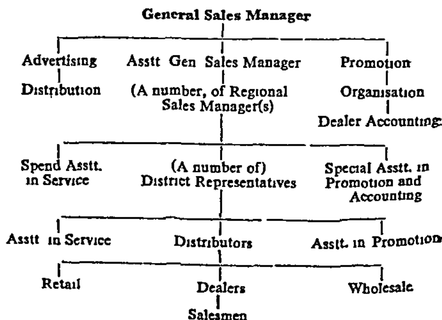
Disadvantages

1 Such an organisation is not good for specialisation
2. It tends to faster generalists
3 There is too much responsibility on one man
4 It creates a tendency in all levels to be 'yes men
5 The organisation does not afford an apportunity for the subordinates to grow and develop

It suits such businesses that are either one man enterprises or those that grewout of the beginning made by one man

(ii) The Line-Staff Type of Sales Organisation

When there are medium sized or large sized industries and industries putting forth a large number of products such an organisation is suited. The sales manager is assisted at each stage by a staff of specialists in different departments such as planning, research promotion service finance, statistics, engineering and training etc The specialised staff advises the sales manager The chart below illustrates this type of sales organisation



Advantages

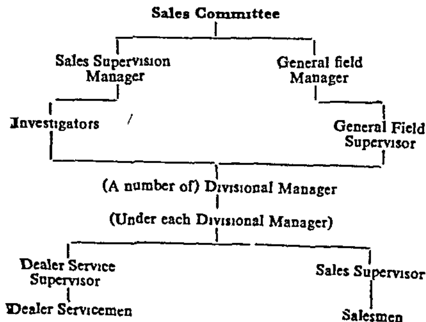
1. Specialists are available to assist in sales planning
2. Sounder policies can always be framed and evolved
3. Higher executives are free to attend planning, the details are left to subordinates
4. It develops experts and improves coordination and cooperation

Disadvantages

1. It is very costly type of organisation and only very big firm can afford to have it
2. It tends to move slowly and encourages shifting of responsibilities

(iii) The Committee Type of Sales Organisation

In this type of sales organisation a committee is entrusted with the task of planning The execution in the field is left to a field sales manager This person may or may not be a member of the committee The committee consists of Managing Director or the General Manager, Person incharge of Finance at the Head Office, Products Manager, Advertising Manager and Sales Research Manager Their designations may be different in different organisations. The chart below will give an idea of this type of sales organisation.



Advantages

1 It is possible to obtain a broad opinion and a chance for deliberation before any action is taken
2 It makes for better coordination among the different departments
3 All round cooperation is promoted
4 Even the smallest man in the organisation has his say
5 The entire sales force works as a big family

Disadvantages

1 It tends to waste the time of people who are not concerned with the deliberations at hand
2 Action is often slow because consensus is always not possible
3 It offers scope for internal politics
4 It does not have the advantage of fixing individual responsibility

(iv) Territorial Organisation

All the three types of sales organisation could have a territorial organisation Here a territory is divided into a number of units of divisions The division may be internal and foreign depending whether the products are sold in home markets or in foreign markets

Advantages

1 Territorial division makes for a better control of salesmen and a better service to customers
2 Transport costs are also reduced
3 It helps in effectively meeting competition
4 It enables the manufacturer to understand and appreciate local problems

Disadvantages

Expenses rise and territorial divisions create problems of distant controls

(v) Trade Type of Sales Organisation

This type of sales organisation is based on the type of customers such as departmental stores cooperative societies chain stores Such organisation suits only large producers who cater to different classes of customers

(vi) Product Type of Sales Organisation

When companies sell a large variety of products such an organisation is recommended e g pharmaceutical, cosmetics

producers etc In this type a group of salesmen is assigned to each product

1 5 Point out the factors that determine the structure of the Sales Organisation Name the chief departments of a Sales Organisation

FACTORS THAT DETERMINE THE STRUCTURE OF THE SALES ORGANISATION

Some of the chief factors are as follows

(i) **Nature of the products** The nature of the products has an influence on what the structure of the sales organisation should *be like* Consumer single use goods of everyday life like soap, cosmetics that are bought repetitively require a more complex organisation than a luxury article like colour T V, air conditioner, motor cars, etc which have no repeat market No doubt some of the items which used to be considered luxuries yesterday are regarded items of necessity Still comparatively their sales are not *repetitive* A perishable article must be sold soon It would require a larger sales force and close supervision This can be noticed in the case of milk and milk products, fruits and vegetables The quantity of product sold also has an impact on the structure of the *organisation*

(ii) **Ability of the Executives** *Ability of the* executives would also determine the structure in as much as very capable and efficient executives would tend to make an organisation a line type where as with less capablemen authority would have to be dispersed

(iii) **Size of the Company** The size of the company itself would affect the sales organisation A line type of organisation is best suited if the company is small while line *staff type* is suitable for a very large concern

(iv) **Method of *Distribution*** Another factor which is material for the sales organisation is the methods of distribution employed for the products

(v) **Finance** *Finance plays* an important role in deciding the structure When capital is limited a manufacturer would naturally prefer to entrust the whole selling function to outside agents because he can not afford to have an expensive sales organisation of of his own

(vi) **Selling Policies** The selling policies of the producer are also a determining factor If the manufacturer decides to

follow an aggressive sales policy he must have a large and complex sales structure Some companies emphasise the research function in which case the sales structure will have research staff to advise the sales executive at different levels

Whatever the type of sales organisation is chosen one thing is very important that is the sales department must cooperate with the other departments of the business. A smooth coordination between the various departments of the business house will ensure success of the business There must be active cooperation between the production and the sales departments

DEPARTMENTS OF A SALES ORGANISATION

The number of departments that constitute a Sales Organisation depends upon the scale of productive and distributive operations and the type of goods for sale Where the article manufactured is a speciality item requiring various types of advertising on a large scale more departments may be necessary so that each can specialise in discharging a specific type of work There can be a market Research Department for studying the sales possibilities of the goods and making suggestions an advertising department for promoting sales a credit department for studying credit worthiness of dealers and consumers, a training department for training salesmen in the efficient discharge of their duties and a sales department for carrying on the routine work. Each department may have its small organisation On the basis of functions a sales organisation may have the following departments or sections

(a) **Advertising Department.** Advertising stands between production and distribution since goods are first manufactured then advertised and there after sold In big companies the advertising department is headed by a manager who prepares the art work with the assistance of his staff select the media or he may see that advertising is satisfactory made by the agency He selects the right type of medium For indoor advertising there are news papers magazine radio advertising television advertising Advertising is an art and requires the services of persons who are capable of doing it thoroughly

This is an age of publicity and mere salesmenship is not enough Publicity is a sort of silent salesmanship It has become a vital force in social life The main function of advertising is to give information

(*b*) **Market Research Department** The main task of the department is in making research in consumers requirements Relevant information is gathered on a number of matters that have to do with the extension of sales The department collects information about the nature of demand competition, features of goods, effectiveness of advertising channels of distribution and so on The department collects data by various methods Sometimes comprehensive question raises have to be prepared. The data thus collected are properly studied and analysed and finally a report is prepared on the results of the survey on a particular problem The department is incharge of preparing statistical data in respect of markets and consumers for the study by the company executives.

(*c*) **Sales Promotion Department** This section is concerned with the steps to be taken for increasing sales volume This is done in various ways such as supplying sales literature and display materials to the dealers, inviting them to sales conferences and conventions, granting favourable terms of trade, writing personal letters giving inducements holding dealers and consumers contests etc

(*d*) **Credit Department** In big business houses there is a separate credit department with the main object of stating the conditions under which credit can be granted studying the credit worthiness of the applicants scrutinising applications, granting credit, collecting overdue accounts and taking action in case of non payment. The department also works as a brake on travelling salesmen who have a tendency to promise liberal credit terms with a view to showing higher sales

(*e*) **Personnel Department.** The function of the department is confined to recruitment and training of the salesmen. It also prepares sales manuals

(*f*) **Sales Department.** All the duties connected with the sale of goods fall upon this department. It is headed by the sales manager The sales department appoints or get appointed salesmen, lays down territories and routes for travelling salesmen appoints agents issues instructions to salesmen as to terms of sale etc receives orders and dispatches goods, writes accounts looks after branches and performs many other duties

POINT AT A GLANCE

1 **The scope, size and nature** of sales organisation are determined by the volume and the scale of the business The general organisation of business have the
   (i) Secretarial Department
   (ii) Sales Department
   (iii) Storage Department

2 **Sales Department is necessary** to properly plan the policy and operations to set up a sales routine, to stimulate sales efforts and to ensure proper supervision so that the goals are achieved

3 **Types of Sales Organisation**
   (*a*) Line Type—Responsibility is centered, authority flows downward in a straight line It eliminates delays in policy making and their execution Sales manager is assisted by a staff of specialists in planning research, promotion, etc
   (*b*) The Committee Type—A Committee of Departmental heads forms the sales policy and the execution is left to the sales manager
   (*c*) Territorial Sales Organisation—Territory is divided in a number of divisions it ensures better control of salesmen and better service to the consumers
   (*d*) Trade Type Organisation—It is indicated for large producers who have differeat classes of trade customers such as industrial users cooperatives departmental stores multiple stores, chain stores etc

4 **Sales Office** Control the sales department It functions in cooperation and coordination with other departments of the enterprise It is control office with equipments and facilities Some clerks deal with customers orders others work as statistical clerks analysing tabulating reports from the salesmen Others might look after correspondence etc
Efficiency of the sales department depends on the sales office.

Sales Manager and the Sales Office

INTRODUCTION

A committee of the American Management Association headed by Mr H W Dodge Executive Vice President of Mack Trucks Incorporation pointed out that the successful sales manager s job was not confined to merely managing the sales force It went much beyond that. The modern sales manager must be able to make use of modern tools like advertising and sales promotion, market research and product research The main tasks of the sales manager constitute Executive management of the sales force customer relations, over all public relations, and control of the product These heavy responsibilities demand dynamic leadership and extra ordinary organising ability on the part of the Sales Manager

2 1 What qualities go to make a successful manager ? What are the duties and responsibilities of the Sales Manager

Sales Manager is the chief executive or head of the sales organisation He is the guiding and driving force of the sales organisation He is variously designated as the Chief Sales Executive, the Sales Director or the Sales Manager In smaller firms the sales manager himself is responsible for most of the functions of the sales organisation. But in modern large sized firms the various functions are the responsibilities of the sub-departments of the sales organisation which are specially constituted and are placed under the charge of the sales manager In such firms the sales manager assumes the administrative role of executing the sales plan while the responsibility of carrying out various functions transferred to the various heads of the sub-departments

IMPORTANCE OF THE SALES MANAGER

The Sales Manager plays an important part in attaining the goals of the business He is responsible for directing all sales activities The results of his functioning has a direct bearing upon the prosperity of the business His activities are vital for keeping the industrial plants operating continuously and efficiently Supplying the products to several parts of the country or making exports on a large scale all depend on the Sales Manager

QUALITIES OF THE SALES MANAGER

The Sales Manager as the head of the Sales Organisation must possess certain qualities to be a successful Sales Manager

Pederson and Wright have suggested the following qualities to be possessed by a sales manager to be successful in administrating the sales function

(a) Possession of knowledge,

(b) Possession of skill and

(c) Possession of attitudes

Possession of Knowledge The Sales Manager should possess knowledge of the following

(i) Knowledge of the policies and the short term and long term objectives of the firm

(ii) Knowledge of the external factors which may have bearing upon operations of the firm.

(iii) Knowledge of present practices and future trends within the industry concerned

(iv) Knowledge of the products both of the firm and of competitors

(v) Knowledge of new developments in the field of motivation research, data possessing and inventory control

(vi) Knowledge of the qualities and limitations of the sales personnel

Possession of Skill The Sales Manager should possess the following abilities

(i) Ability to work successfully with others and to take work from them

(ii) Ability to communicate ideas

(iii) Ability to inspire and motivate others

(iv) Ability to select right type of salesmen.

(v) Ability to evaluate the performance of the salesmen

(vi) Ability to train salesmen for future growth of the firm.

(vii) Ability to analyse and interpret facts.

(*viii*) Ability to take right decision and choose between alternative actions

Possession of Attitudes The Sales Manager should possess the following attitues

(*i*) Open mendedness—He must be ready to accept new ideas and avail of opportunities for new products or services

(*ii*) National inclination to look ahead

(*iii*) Flexibility—He should be ready to change techniques methods and practices if the changed circumstances so warrent.

(*iv*) Keen desire for continuous self development and improvement.

(*v*) High standard of ethical conduct

We may list these qualities of the sales manager as follows

(*a*) **Professional Qualities**—Managerial ability, initiative, experience of bussiness, knowledge of the sales area, knowledge of accounts, technical abilities, knowledge of product

(*b*) **Personal Qualities**—Good personality, self confidence, courage, foresightedness, firm decision ambition, patience, courtesy, honesty, consciousness leadership ability neatness and attractive get up smiling face better understanding and open mindedness, punctuality

(*c*) **Special aptitude** regarding management, full understanding of the scope and purpose of the business as a whole

DUTIES AND RESPONSIBILITIES OF SALES MANAGER

(*i*) The duties of a sales manager are many and varied He has to appoint suitable persons to work in the different departments and assign duties to them

(*ii*) He has to coordinate work of different departments and see that no losses are suffered

(*iii*) He must study the market conditions, problems of competitions and the substitutes coming into the market He must inform the Managing Directors of these facts and make his suggestion

(*iv*) He should collect samples of the goods of the competitors, try to understand the better features of such goods and get his own products improved.

(*v*) He should keep his knowledge of the market upto date by taking with wholesale merchants, retail merchants, agents and distributors

(vi) He should study the excise rules, sale tax rules and packing rules and see that no legal technicalities and provisions are violated

(vii) He has to see that the books of accounts in his office are properly maintained and the various statements properly prepared. He must have before him statements of daily sales, collections and all relevant information

(viii) He must arrange for training of those who need it, call conferences and disscuss problems

(ix) He should hold sales contests if that can improve things and take steps to encourage salesmen

(x) He must look after important correspondence and clerify the queries made by agents and travelling salesmen He must reply to merchants whether the term asked can be agreed to or not.

(xi) He arranges and plans salesman's tours, allocate sales territories and see that no clash of interests takes place He must insist on each salesman fulfilling his quota of sales

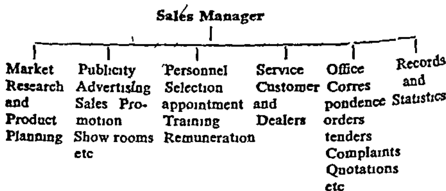
(xii) He must manage to collect the dues from customers, agents and distributors This is important because the sales proceeds are a part of the working capital of a company

(xiii) He must organise an internal audit and inspection system. He must act promply on the reports and reclify the defects at once.

(xiv) He has to see that the sales department is run efficiently with minimum expenditure

(xiv) Finally it is his duty to increase the sales volume to the extent possible for which he should take all possible measures for sales promotion

The following chart gives an idea of the duties and responsibilities of the sales manager



It is the sales manager who plans the market research programme and established a sales policy based on the findings of the market research The Board of Directors acts upon his advice regarding the location and layout of the office and opening of branch offices

TYPES OF SALES MANAGER

According to the functions performed the Sales Manager may be classified as

(a) The administrative Sales Manager
(b) The Operating Sales Manager
(c) The administrative cum operating Sales Manager

(a) **Administrative Sales Manager.** In a large size firm the work of sales organisation is divided into various sub-departments and each department is put under an executive officer, known as assistant sales manager or deputy sales manager In such firms the sales manager is as the administrative head of the sales organisation as is known as the General Manager

(b) **Operating Manager** The operating sales manager is subordinate to the administrative sales manager He is responsible for the actual execution of the plans prepared by his head He gives effect to the sales policies laid down by the administrative sales manager

(c) **The Administrative Cum Operating Sales Manager** In a smaller firm the chief executive of the sales organisation himself does all the functions with the help of a few salesmen and assistants in the sales office Sometimes the sales manager is known according to the area of operation or function assigned to him

2.2. How does the Sales Office function ? Describe a few types of selling organisations.

The success of the business enterprise is dependent on the success of the sales office. The working of the sales office begins with inquiries from the customers. These inquiries may be made on telephone or may be by letters. All inquiries must be carefully followed up However trivial or casual an inquiry may appear to be, it must not be neglected because sales are born out of inquiries

A sales organisation consists of the following departments

1 **Physical Distribution Department.** The main functions

of this department are storage, packing despatching and transport of goods

2. Publicity and Sales Promotion Department Its functions are advertising selection of media, sample distribution, displays etc

3 Public Relations Department The functions of the department are to maintain good relations with people—supplier, distributors, dealers, customers, etc.

4 Personnel Department. Its functions are to allocate the duties recruit the salesmen train them, remunerate them and control them

5 Statistics and Records Department. This department *is responsible for keeping statistics or figures of quantity demanded, sales, quality of goods*

6. Credit and Collection Department It maintains the records of credit and collection Frames the credit policies etc.

7 Accounts Department. This is an important department, which deals with the accounts such as Profit and Loss Account. Balance sheet preparation of returns for tax purposes etc. Payment of remuneration and their accounts

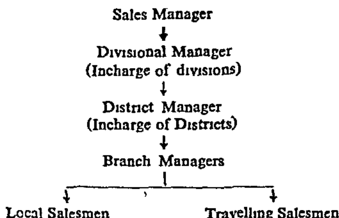
8. Market Research Department It is engaged in marketing research in consumers requirements liking and disliking etc On the basis of research data and their analysis suggest improvement with regard to quality design creation of new market, etc

9 Sales Department It is considered to be the heart of sales organisation It is the controlling nerve centre It is headed by sales manager salesmen clerks typists despatch clerks and a number of other clerks discharging work of different types The sales department appoints or get appointed salesmen lay down terri*tories and routes for travelling salesmen appoints agents* gives instructions to salesmen as to terms of sales etc receives orders despatches goods prepare cash bills and invoices receives payments, stores packed goods writes accounts for them looks after branches and performs many other duties In a small firm where separate departments are not constituted this department carries out all the work of all such departments Hence sales department is the most important department Since all the departments are no more than the *organs of the sales organisation the term ' sales department is used*

comprehensively to include the other departments coming under sales organisation

The main function of a Sales Department is to effect sales The results of the sales effort is dependent on the efforts and cooperation of other departments In case of a small organisation the sales manager has personally to control and supervise the various sections as he is the executive head of the sales organisation In case of large organisations the sales manager has to take the assistance of a number of assistant sales managers who are placed in charge of particular sections

The organisation structure of the sales department in case of a large business house may be as follows



SELLING ORGANISATION

The selling organisation must carefully consider all the channels of distribution eventually fix and adopt those which would being the best results This would greatly depend on the nature of the article as well as the money which can be spent by the organisation concerned

The following are the various organisation of selling

1 Wholesalers The wholesalers form an important link in the chain of producers, retailers and consumers A wholesaler deals in large quantities of purchases and sales

Types of Wholesalers There may be manufacturer wholesalers, merchant wholesaler, retailer wholesaler, general merchandise wholesaler speciality wholesaler

2. Retailers Retailing implies distribution and sale of goods to the ultimate consumers in small quantities

Types of retail organisation

(*a*) **Departmental Stores** The departmental store is one of the most important types of large scale retailing institutions These departmental stores sell a wide range of goods handled by well defined departments

(*b*) **Multiple Shops/Chain Stores** They deal in single merchandise and sell it through a large number of identical retail stores in different parts of the country

(*c*) **Mail Order Houses** These houses deal directly with the customers at economical prices Orders are received and goods are sent by post These deal in standardised goods only

(*d*) **Consumer Cooperative Stores** Certain consumers form cooperative societies with a view to eliminate the wholesalers as well as the retailers and distribute goods among them at cheaper prices

(*e*) **Through Distributors and Agents** The manufacturers sell directly to distributors Sometimes agents are appointed to effect sales

(*f*) **Commission Agents** They sell the goods on commission basis

Thus marketing channels are the routes taken by the title to the product on its journey from the producer or manufacturer to the ultimate consumer (or industrial user) Marketing channels furnish a bridge between the producer and the consumer It is the marketing channels through which a producer of goods delivers them into the hands of their users In this process three basic utilities (i) place, (ii) time, and (iii) ownership are created

Following points should be kept in mind while selecting marketing channels

(i) One must have complete idea of the middlemen available in the channel

(ii) It costs money and needs considerable efforts to procure services of the channels of distribution

(iii) Middlemen are not the passive links in the chain of distribution leading from producer to consumer They are not just waiting to receive directions from the manufacturers Nor they just exist for the convenience of the manufacturers

In view of the above manufacturers have to be very careful in selecting the channels of distribution

2.3 What is Selective Selling? What are the advantages of selective selling? Explain limited and exclusive agencies

To be successful in establishing and maintaining contacts with the potential buyers based on best mutual interests the manufacturer seller must select very carefully the marketing channel which suits his product or products He must decide (i) to what extent he will establish contact with the potential buyer himself, and (ii) to what extent he would use one or more of the middlemen from the channels of distribution He has to choose one or the other (or partly one and partly another) of the following

(i) Use of a large number of middlemen
(ii) Use of a limited number of middlemen, i e, Selective Selling
(iii) Use of Limited or Exclusive Agencies

USE OF A LARGE NUMBER OF MIDDLEMEN

These manufacturers who want to sell their products to all the potential buyers at every possible point of sale will like to sell through all the middlemen who can sell them effectively This involves an attempt to place a product in every possible outlet available Such practice is more common in the marketing of convenience goods such as soaps, cigarette, toothpaste, etc Product that buyer wishes to purchase at the most convenient location are sought to be sold this way

Limitations of a Large number of Middlemen

(i) It is simply difficult to establish contact with all the buyers
(ii) The expense of selling may not always be justified by the gross profit obtained
(iii) It may be difficult to obtain ready response and active cooperation from all retailers to sell one s products

In view of these limitations through many middlemen policies of selective Selling and Limited and Exclusive Agencies are followed by some firms

SELECTIVE SELLING

The term "Selective Selling" means restrion of sales to a limited number of middlemen in a given market area. Under this

method, a manufacturer (also a wholesaler) chooses only a few middlemen who—and who alone—are to be allowed to handle the product or products of the manufacturer (or the wholesaler) in that particular market area Obviously only such middlemen are chosen who are sure to devote attention to the sale of the products of the manufacturer (or the wholesaler) in that particular market area The objects are two fold

(i) Reduction of selling costs and

(ii) Increasing profits

Some manufacturers practise Selective Selling both at wholesale and retail levels

Advantages of Selective Selling

1 It creates 'prestige image of a product

2 It lowers marketing costs and reduces credit risks

3 It is an effective tool for ensuring consumer s satisfaction with the product and after sales services rendered

4 It facilitates direct marketing activities

LIMITED AND EXCLUSIVE AGENCIES

Meaning The policy of Limited Agency Distribution involve restriction of the number of middlemen to a greater degree than is practised in the case of Selective Selling. The term "Limited Agency is used to describe the practice of more restrictions on the number of middlemen than is involved in Selective Selling This policy is adopted to take advantages of Exclusive Agency while avoiding the extreme degree of limitation of middlemen which the policy of Exclusive Agency involves

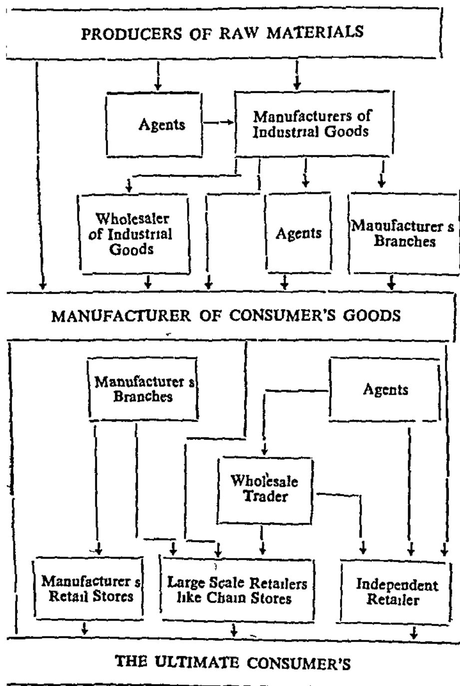
Exclusive Agency refers to an agreement between the manufacturer and middlemen under which a manufacturer grants the exclusive right to sell his products in the territory specified in the agreement to a particular dealer No other dealer can sell that product or products in that territory Exclusive Agency agreement may be of two types

(a) Exclusive Dealing Agreement or Fully Exclusive Agreement and

(b) Exclusive Selling Agreement

CHANNELS OF DISTRIBUTION

(From the Stage of Raw Materials to the Stage of Ultimate Consumer of Finished Product)



Fully Exclusive Agreement or Exclusive Dealing Agreement refers to an understanding written or oral between the manufacturer and middlemen under which the manufacturer grants one middleman the exclusive right to sell his product in a given market area and in return the middleman agrees not to handle competitive products Such a policy encounters two obstacles

1 Many dealers may not agree to the agreement prohibiting them from handling competiting products
2 Such an agreement amounts to restrain on trade

To over come the above obstacles Exclusive Selling Agreement type of Exclusive Agency Agreement is becoming more popular Under this method the manufacturer grants one middleman the exclusive right to handle his product or products in a given market area The manufacturer agrees to sell to no other middleman in the area, though the middleman is free to sell competiting production. In return the middleman promises to pay special attention to push the sales of manufacturers product or products

Exclusive Agency method of distribution has sound basis in the economies of marketing certain products

ADVANTAGES AND LIMITATIONS OF EXCLUSIVE AGENCY

The policy of Exclusive or Limited Agency has certain advantages as well as limitations both from the point of view of manufacturers and middlemen These may be summarised as follows

Advantages to Manufacturers

1 It is easier to maintain resale price because of closer control over pricing and other marketing policies of the dealer
2 Distribution costs are less than when they distrib ite through large number of dealers
3 It ensures better sales efforts on the part of the middleman.
4 Prestige and goodwill of the products is built up more effectively
5 The introduction of new product is facilitated
6 Possibility of bad debts is minimised
7 Better servicing of the product is ensured

Limitations for Manufacturers

1 Some goods simply can not be sold effectively through these methods For example shopping and convenience goods can not be sold most effectively by exclusive dealers because they must have wider distribution

2 There is a risk of the manufacturer running the risk of lossing his market should be exclusive dealer change his market area.
3 Restricted distribution is likely to result in limited sales in the given market area
4 It is difficult to change an exclusive dealer without an adverse effect on the reputation of the manufacturer

Advantages to Middlemen

1 Exclusive dealer has the full advantage and benefits of all the advertising done by the manufacturer in his market area
2 Closer cooperation and greater assistance from the manu facturer is received
3 Being exclusive dealer of a well known firm enhances the prestige and standing of the firm of the middlemen
4 New customers are attracted resulting in increased sales volume

Limitation of Middlemens

1 Manufacturer may take away the exclusive right and give it to another dealer in the locality
2 Exclusive dealer is not free in the matter of pricing and other marketing policies
3 It is difficult to change to another line of products when giving up exclusive agency becomes necessary

It should be noted that the use of the word 'agencies' does not mean that the wholesaler or retailer who is granted exclusive right under this method occupies the same place in their relationship with the manufacturer which an agent middleman has with his principal

To avoid the possibility of this confusion some authors prefer to use the term Exclusive Distribution in place of Exclusive Agency to describe the policy discussed above

POINT AT A GLANCE

1 Role of Sales Manager

(i) Head of the sales organisation
(ii) Executive management of the sales force
(iii) Customer relations and public relations
(iv) Control of the product.

(*v*) He is friend, philosopher and guide to the salesmen.
(*vi*) He must have organising and planning ability

2. Functions of Sales Manager

(*i*) Planning for future on the basis of past records,
(*ii*) Advising the top management regarding the opening and closing of some branches, etc ,
(*iii*) Selection and placement of salesmen and their training,
(*iv*) Organising the sales organisation,
(*v*) Direction and coordination,
(*vi*) Task of publicity and display,
(*vii*) Market Research to meet the demands of the customers

3 Qualities of Sales Manager

(*i*) Physical—sound health to discharge heavy duties
(*ii*) Vitality and Endurance.
(*iii*) Psychological Qualities
  (*a*) Personal magnatism
  (*b*) Cooperation,
  (*c*) Ability to inspire,
  (*d*) Force fulness
(*iv*) Character Qualities
  (*a*) Integrity
  (*b*) Self discipline
(*v*) Intellectual Qualities
  (*a*) Mental Capacity
  (*b*) Sound judgement

4. Sales Office

The work of the Sales Office begins with the receipt of inquiries from customers.

(*i*) Inquiries must be followed up and quotations sent
(*ii*) Salesmen s reports should be properly maintained and analysed
(*iii*) Scrutiny of the salesmen s reports
(*iv*) Proper classification of information
(*v*) Customers records to be maintained.
(*vi*) Prepare planned and accomplished charts
(*vii*) Correspondence with the travellers and other department.
(*viii*) Attend customers orders etc.

3

Sales Routine

INTRODUCTION

Sales routine is actually a part of the sales office routine The sales office has to deal with a number of matters Customers enquire about prices and terms of sale Sales routine commences with replying to such enquiries, giving quotations, executing the orders, attending correspondence and maintaining records Sales routine does not mean the supplying procedure only but it means the steps involved in the day to day sales Sales routine deals with handling incoming mail, handling customers and traveller's orders, controlling the sales force etc In fact the success of the business enterprise is largely dependent on the success of the sales office

3 1 Discribe the functions of sales office How the sales office works ?

HOW THE SALES OFFICE WORKS ?

Successful and efficient working of the sales office is one of the important ingredients of a successful commercial enterprise The size of the sales department depends on the size of the business The different types of jobs are handled by the Sectional heads but the ult mate control rests with the sales manager Efficient working is possible only if all the sections work smoothly efficiently and with full cooperation with one another Success of the selling effort depends upon the success of the sales department

1' Customers Inquiries Inquiries emanate from the advertising compaign of the firm or from the convassing work done by the firm s salesmen These inquiries may be made on telephone or by letters Some inquiries may be very casual asking for some information 'Whether particular goods are available and if so their prices Some inquiries may relate to complaints against the goods salesmen or delys in execution of orders If the same inquiry come from various quarters it suggests dificiency of sales literature.

All inquiries must be followed up carefully No inquiry however trivial or casual in appearance must not be neglected because after all sales are born out of inquiries If possible the salesman of the area or territory should follow up the inquiry by personal call He may present the prospect sales literature and convince him by his sales talk

2. Salesman's Calls The sales office fixes up the salesman's calls The salesman is required to make a minimum number of calls daily These calls must be planned in such a way as to cause minimum waste of time and energy It should be the duty of the sales department to see that every enquiry entrusted to the salesman is properly dealt with by him A scrutiny of his sales report affords the necessary clue towards it. The inquiries regarding complaints about the salesmen should be scrutinised by the supervisory staff or the sales manager The feelings of the customer must be respected He should not feel that he is neglected otherwise it will jeopardise the wholesales effort At the same time the salesman must not be let down. He must be shielded against any false or malicious complaint All this requires very tactful handling by the sales manager

3 Quotations The prospect wants to have the quotation for the goods he requires If the goods required are standard goods there is no difficulty and the salesman can himself give a verbal quotation by referring to the firm s catalogue Later on a quotation letter can be sent from the sales office in the specified form

Customers sometimes have their own requirements which are required to be manufactured according to their individual needs The salesman is not mere position to offer quotations for special requirements He may ask the prospect to prepare a design according to his requirements Thus may be submitted to the sales office The sales manager in consultation with the production manager scrutinise such designs and quotations sent

4 Salesmen's Reports The salesmen have to submit reports of their work to the sales manager Most well organised firms provide printed forms for salesmen s daily reports, daily progress For the detailed account of the work of the salesmen systematic record is very necessary The collection and tabulation of such informations for statistical purposes becomes easier It makes the work of comparison of the work of different salesmen easy This is not

possible if the salesmen are asked to keep diaries because they will maintain it in their own way

Scrutiny of the Reports In the sales office there are some assistants who deal with the salesman's reports They scrutinise these reports and see if any action is needed by the sales office These reports contain information regarding what the prospects are using at present what they are interested in, special suggestions, credit rating of the prospects etc The sales office makes proj er classification of the information thus gathered from the reports and process the matter to the different departments

The salesman's work is reflected in these reports The evaluation may be done by the assistants The sales manager go through the summaries and if necessary calls the salesman concerned for a personal discussion He advises or instructs him as to how the prospect should be handled If the matter is buyond the authority of the salesman, the sales manager deals with the problem himself On the basis of these reports the sales manager instructs other departments regarding things which need their attention

5 **Handling Incoming Mail** Mostly the incoming mail relate to

(*a*) Enquiries and quotations

(*b*) Complaints from customers to whom goods have been supplied and who have found certain defects

(*c*) Salesman s reports

(*d*) Orders for goods

Orders for goods come from new as well as old customers To avoid disputes the sales department must request to send written order forms Where buyers are personally known goods are often despatched on receipt of orders on the phones even without waiting for written order forms All order forms should contain full particulars such as date of the order, quantity of goods brand name, rate at which payment will be made and whether it is inclusive of sales tax and freight, when payment will be made, by which route or mode of transport goods are to be sent in how many days goods must reach the customer and so on

When order forms are received the person in charge of the incoming mail stamps on these forms the date on which they are received Before executing the order scrutiny is made as to the feasibility of executing the same The particulars of the order forms are entered in an orders, Received Book or Register After

SPECIMEN—ORDERS RECEIVED REGISTER

1 Serial No	2 Order No	3 Name and Address of the Party Ordering	4 Through whom[1] the order has come/or directly	5 Date of the Order Form

6 Date of receipt in the Company	7 Full Particulars of the Goods Ordered				
	Quantity	Quality	Date of Delivery	By which Transport	Other Instructions

8	9 Actual Despatch Particulars			
	Quantity	Description	Transport	Date and Number[2] of Delivery Slip R/R / L/R

10 Invoice No	11 Amount at Invoice	12 Remarks

1 *Name of Selling agent*

2 *For Local Deliveries*

the entries are made in the Register the Sales manager initials them indicating thereby that the goods may be despatched One advice note is sent to the packing department, one to the godown, one to the despatch department, one to the checking department while one is kept in the records of the sales office The note contains full particulars about what to pack how and how many articles to pack, to which address they are to be sent, by what mode of transport etc Checking is done before the goods are packed so that no errors may be committed in packing The despatch section fills up the particulars in the prescribed forms for paying excise duty whereever it is necessary They check up the soundness of packing and send the goods to the Railway parcel office or transport office to take the railway receipt or lorry receipt as the case may be The R/R or L/R is then handed over by the despatch section to the sales office which then enters the particulars of the document in the Register The R/R and L/R is an important and valuable document representing title to goods The consumer will be able to receive the goods at his end only on producing it at the railway station or the transport office If the customer agrees to insurance for loss or damage of goods while in transit, the particulars of goods to be despatched are communicated to the Insurance Company The sales office then send the R/R or L/R to the accounts office with the copy of the invoice Here in the accounts section the demand draft or bill of exchange is prepared If payment is to be made by the customer on presentation of the R/R a demand draft is prepared If he has to be given credit a bill of exchange (Hundi) is prepared The accounts office thus sends all these documents— R/R (or L/R) D/D or B/E invoice etc to its bank with a covering letter asking the bank to send them to the bank at the place of the customer whose particulars are given in the invoice for collecting the amount due from him at the time it becomes due as per D/D or B/E and hand over the R/R (or L/R) to the customer that the goods as per his order are sent by rail or motor transport and that he may take delivery from the railway station or motor transport office duly presenting the R/R or L/R taking it from the bank

Correspondence with other Departments It is the duty of the sales office to keep its dealers informed about the changes

GUIDING PRINCIPLES FOR ALLOCATION OF SALES TERRITORY

(i) Both the salesmen and the company should be mutually benefited by the allocation

(ii) The size of the territory should be determined in such a way that it may be covered by an average salesman in the allotted period of time

(iii) The territory should be reviewed and adjustments required if any should be made

(iv) A salesman should preferably be allotted only one territory

ESTABLISHING CONTROLS THROUGH REPORTS AND RECORDS

No company can operate successfully without reliable detailed information in the form of written reports and records It is the salesman who is the primary source of information about market, competition customers and prospects and the reactions to the company s products, service advertising sales promotion prices and policies The salesman is the most suitable person to give this information because he is in the field and it is he who meets the customers in person These reports become the mirrors of the sales position in the whole of the sales area

Objects Besides getting information it is through these reports that a sales manager could know what his salesmen are doing and how they are doing It is equally for a salesman to know how he himself is doing and how his company is doing The facts and figures reported from the basis for marketing research enabling an organisation to look into the future and devise future plans

The process of getting reports and its analysis is termed as Communication System in Marketing Communication is not a one way traffic Unless management explains and justifies the reports it requires of the sales organisation and transmits back to the men in the field The conclusions and implications of these reports the reports will fail to serve as an efficient tool of control Control depends on communications communications depend on how properly they are prepared For this Sales Reports and Records are to be properly designed and simplified and made explanatory to cover all the details These reports may be daily, weekly or monthly

on the basis of frequency of information needed by the sales department For getting uptodate information the reports should be made as frequent as possible

Details Required in a Report

(i) Names and addresses of the prospects/customers contacted
(ii) Goods now bought
(iii) Income social status of the prospect.
(iv) What do they really need ?
(v) Reaction about the company's products
(vi) How negotiation took place ?
(vii) Action required or proposed
(viii) Date and time of the report.

A good report should be simple and intelligible It should stress the information needed Essay type of information should as far as possible be avoided

HOW DOES THE REPORT HELP THE SALES MANAGER ?

1 A salesman's report helps the sales manager to organise and plan his work without wasting time He could schedule his work on the basis of importance

2 When there are changes in sales territories the salesman in the new area could begin his work by analysing the past reports

3 A check up of the salesman s report is a good form of control The report enlightens a sales manager on the weaknesses and strong points of a salesman

4 A salesman s reports are a true record of the sales activities from which the sales manager can plan for the future

5 From a salesman s reports it is possible to estimate the selling cost and its effective control

6 The reports represent the effectiveness of advertising compaign and other sales promotional devices

7 Such reports show the tendencies of change in demand by the customers

8 Finally the salesman s reports are the indices of the results of the sales efforts of the firm It is these reports that enable the sales manager to determine whether it is worth while to send a salesman to a particular area or not.

Personal Control This is the old form of control practiced even today in some organisations Field supervisors are appointed and they check the work of salesmen under them Deficiencies noted are explained to the concerned salesman and corrective methods suggested Here also reports are used but preparing report is the duty of the supervisory staff This method is costly and overlapping of functions which makes it rather complicated In the case of drug industry, fertiliser industry etc this method is adopted to a very large extent

Sales Bulletin This infact is an indirect control exercised by the sales manager The main idea is to keep all concerned the Wholesalers, Retailers, Dealers Salesmen abrest of the market conditions, the company's sales policy, new products, changes in prices etc It is prepared in a letter form or in the form of an analysed report indicating future course of action It is highly useful for salesmen For it provides them with an authority a guideline for their activities With the help of the information provided in a sales bulletin a salesman is able to know the over all performance of the organisation which becomes a motivating force for his initiative

POINTS AT A GLANCE

1 **Sales Routine**
   (a) Handling in coming mail
   (b) Handling customers' and travellers orders
   (c) Handling complaints from customers

2 **Sales routine is a part of the sales office routine** Broadly a sales routine means the steps involved in the day-to-day sales

3 **Sales routine is the mechanical procedure,** receiving enquiries replying to them receiving orders, executing them by despatching goods and taking back of defective goods are the usual steps that come under sales routine

4. **There are many matters on which considerable mail flows in and this relates to routine sales**

5. **Salesmen's reports are received and scrutinised.** The sales manager knows through these reports whether the

salesmen are actually going to their respective territories or not These reports contain information regarding

(i) Sales effected
(ii) Concessions allowed
(iii) Comments on goods
(iv) Collection of arreas
(v) Business prospects
(vi) Expenses incurred

6 **After Sales Service** In case of any complaint regarding the functioning or quality of the articles, the office instructs the salesmen to attend to the complaints of the customers promptly and should try to satisfy him by rendering necessary service or repairs

7 **Business Circulars** In case of change of premises name transfer of business change of address withdrawl of the power of procuration to the salesman etc Cyclostyled or printed circular letters are issued to the concerned parties

4

Selection, Training and Remuneration of Salesmen

INTRODUCTION

Good Salesmen are not born but made by properly organised and directed sales training programmes

—B R Confield

'It is an organised activity involving fact finding, planning coaching, practice criticism and accommodation in a purposive attempt to develop selling skills

—George R. Collens

Selection and training of the salesmen is one of the important functions of the sales manager He must be very cautious and careful about his selection His success is the sum total of the efforts of the persons he is going to select If any thing goes wrong with it, the consequent failure in the sales efforts will be unavoidable The firm has to spend a lot of money for training these recruits If his choice goes wrong all this expenditure will prove to be a sheer waste The Sales Manager should have with him job specification for each post that he has to fill

4 1 Discuss the functions of a Sales Manager in respect of

(A) Selection right type of Salesmen

(B) Training of the Sales Personnel.

SELECTION AND RECRUITMENT OF SALESMEN

A salesmen is an important cornerstone upon which a sales organisation is built Consequently the Sales managers are confronted with the task of planning a sound selection programme of salesmen Training motivation, remuneration are other prime factors in developing an effective sales organisation But the degree of success depends to the large extent on the ability of a sales manager

to 'attract, discover and hire the right kind of man Selecting a proper man is a serious problem on account of a number of reasons

Difficulties to be encountered in selecting the right Personnel

(i) Selling jobs have become more difficult because of the greater complexity of product or services the multiplicity of channels of distribution

(ii) Markets are highly competitive

(iii) Selling as a career or profession has not been fully accep ted hence there is only a limited number of salesmen who could really qualify for the job

(iv) There is a noted absence of institutions where salesmenship is taught

The process of recruitment is explained below

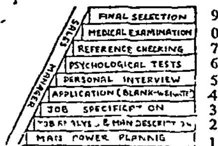


Fig 4 1 The Process of Recruitment

DECIDING THE QUANTITY OF SALES FORCE

The sales manager first assesses the need for sales force in quantitative terms How many salesmen are required ? What is exactly the job ? What are the qualities required to perform the job ? It is the duty of the sales manager to assess the ' set of speci fications covering the manpower needed for the organisation This includes job description and man specification Without shese two tools it is very difficult to carryout effectively the functions of recruiting, selecting training controlling and motivating salesmen.

Job Description It is a statement prepared to specify the duties responsibilities relationships and authority attached to a particular job It is concerned with the job and not to the individual Major functions required to be performed by salesmen are charted out first. This will not only ensure the job to be undertaken but would also make the salesmen think about their job obligations.

Such a description should be accurate and should classify the activities to indicate priorities in performance It should also show what salesmen need to know what qualifications are necessary to perform the designed activities etc Job description is sometimes also referred to as 'position description'

An example of job description is given below

A B C Co Ltd.

Dept Marketing. **Job** Marketing Salesman

1 Function and Scope

(a) To produce Sales Quota in an assigned territory

(b) To create goodwill for the company and its products

2 Duties and Responsibilities

(a) To acquire maximum knowledge of the company and its products

(b) To study the applications and uses of the products

(c) To get familiarised with the company s promotional programme

(d) To study competitive products and to develop a thorough knowledge on an analytical basis

(e) To establish and maintain contacts with customers

3 Duties and Responsibilities—Sales Skills

(a) To develop and apply the art of persuasive Salesmanship

(b) To plan and develop Sales strategy

(c) To overcome the resistance and complaints from the customers

4 Duties and Responsibilities—Organisation and Management

(a) To secure more business from existing customers

(b) To send reports and observations

(c) To remember at all times that the Salesman represents the company

(d) To profitably oriented keeping expenses to the minimum

Man Specifications Man specifications indicate the exact requirements needed for a particular job On the basis of the nature of duties the requirements may be also change, *e g*, a Delivery man s job consists largely of rendering service—delivering milk, fuel etc Obviously good service and pleasant manners will enhance customer acceptance and produce more sales No creative selling is needed in the case This is also the case with an out door salesm--

to 'attract, discover and hire the right kind of man' Selecting a proper man is a serious problem on account of a number of reasons

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(iv) There is a noted absence of institutions where salesmenship is taught

The process of recruitment is explained below

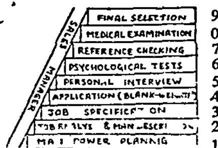


Fig 4 1 The Process of Recruitment

DECIDING THE QUANTITY OF SALES FORCE

The sales manager first assesses the need for sales force in quantitative terms How many salesmen are required? What is exactly the job? What are the qualities required to perform the job? It is the duty of the sales manager to assess the 'set of specifications covering the manpower needed for the organisation This includes job description and man specification Without these two tools it is very difficult to carryout effectively the functions of recruiting, selecting training controlling and motivating salesmen.

Job Description It is a statement prepared to specify the duties responsibilities relationships and authority attached to a particular job It is concerned with the job and not to the individual Major functions required to be performed by salesmen are charted out first. This will not only ensure the job to be undertaken but would also make the salesmen think about their job obligations.

Such a description should be accurate and should classify the activities to indicate priorities in performance It should also show what salesmen need to know, what qualifications are necessary to perform the designed activities etc Job description is sometimes also referred to as 'position description

An example of job description is given below

A B C Co Ltd.

Dept Marketing. **Job** Marketing Salesman

1 Function and Scope

(a) To produce Sales Quota in an assigned territory

(b) To create goodwill for the company and its products

2 Duties and Responsibilities

(a) To acquire maximum knowledge of the company and its products

(b) To study the applications and uses of the products

(c) To get familiarised with the company s promotional programme

(d) To study competitive products and to develop a thorough knowledge on an analytical basis

(e) To establish and maintain contacts with customers

3 Duties and Responsibilities—Sales Skills

(a) To develop and apply the art of persuasive Salesmanship.

(b) To plan and develop Sales strategy

(c) To overcome the resistance and complaints from the customers

4 Duties and Responsibilities—Organisation and Management

(a) To secure more business from existing customers

(b) To send reports and observations.

(c) To remember at all times that the Salesman represents the company

(d) To profitably oriented, keeping expenses to the minimum

Man Specifications Man specifications indicate the exact requirements needed for a particular job On the basis of the nature of duties the requirements may be also change *e g* a Delivery man s job consists largely of rendering service—delivering milk, fuel etc Obviously good service and pleasant manners will enhance customer acceptance and produce more sales No creative selling is needed in the case This is also the case with an out door salesman.

Missionary salesmen on the other hand are used to educate the user or build goodwill Consequently the job requirements will still be different in the case of Technical Salesmen or Sales Engineers whose prime duty is to serve as consultant to customers Thus the requirements may change but as far as an organisation is concerned they must be determined and outlined well in advance

Characteristics the man specifications should include

(i) The kind of information the applicant needs to qualify for the job

(ii) The skills involved in carrying out job activities

(iii) The personal charactersitics and attitudes required for ensuring success and

(iv) Work habits conducive to sales success

Emphasis should be placed on two basic considerations

Can be do the job ?

Will be do the job ?

A certain company discribed the man specifications for salesmen in the following

1 Integrity—high personal conduct, complete honesty, fairness
2 Judgement—Correct decision based on logic analytical study of the problem
3 Emotional stability
4 Accepting Responsibility
5 Getting things done
6 Personal acceptance
7. Cooperativeness
8 Resourcefulness and originality

SOURCES OF RECRUITMENT OF SALESMEN

(a) From company s own staff
(b) From Competiting Firms
(c) Employment Agencies
(d) From Educational Institutions
(e) Through Press Advertisments,
(f) From Employment Seekeers
(g) From Casual applicants
(h) Reccommended condidates

On the basis of necessity the firms may select any one of the above sources or more for lapping required salesmen

Selecting a Proper Salesman Having decided the source the next step is the scrutining of the applications The applicants who satisfy the job description and man specifications are only considered The selected condidates are further examined closely using various methods such as

(*a*) **Application Form.** Either a standardised application form is given or the applicant is asked to make their applications suggesting the essential points The Application Blank lists only those qualities and the information considered essential for a particular job This enables a quick elimination of obvious misfits. The application form, these days, includes certain psychological questions too for properly assessing the abilities of the applicant Some firms also use 'Weighted Application Forms In such forms specific weight is given to the various factors that are sought in salesmen The purpose behind the use of weighted application blanks is to provide maximum assistance to the sales manager in measuring new applicants against predetermined standards

(*b*) **Personal Interview** Personal interview is highly essential since a salesman must have certain physical qualities The personal interview helps the sales manager to find out whether or not what the applicant has stated in his application form is true The interview may take either the Patterned interview form or Non patterned interview form

In the Patterned or Guided Interview the procedure is highly standardised The interviewers put the same questions to all to have an easy comparisons on the basis of answers of the condidates In Non Patterned Interviews the candidate is persuaded to talk Twisted questions which have no pattern are asked Answers are recorded and on the basis of answers provided the condidates are roted

(*c*) **Psychological Tests** For measuring latent talents psychological tests are conducted Most widely used ones are the Intelligence or General Aptitude Tests These are useful in determining whether the applicant has the required mental ability to take up the job

(*d*) **Inviting Reference'** Along with the applications the candidates are required to provide two referees with whom references could be made The referees may be previous employers or reputed persons in society Because of the possibility of manipulation this method is adopted only for screening the applications.

(e) **Final Interview and Appointment.** After the selection procedure is completed the candidate may be called once again for a final interview and a medical examination The candidate is asked to submit the certificates in original and an appointment is issued. An appointment order should specifically mention the salary, commission, allowences, nature of work etc Then necessary training is given to them to fit in the jobs In case of certain jobs contract is entered between the employer and the employee listing the conditions on which the job is given.

4.2. How far do you agree with the old belief that "Salesmen are born and not made" Why is training for salesmen necessary ? Outline a programme for imparting training to the salesman.

There is an old belief that 'Salesmen are born and not made Salesmanship being an art most people even today believe that a perfect selesman is born and cannot be made This is absolutely incorrect. Craftsmanship can be achieved by training only Salesmen s job is a routine one. All great geniuses always hate routine They cannot conform with it for long So the problem we have to consider is not that of born salesman but of routine salesmen who can increase the volune of sales efficiently It requires intensive training. Even the born one can learn a lot in training schemes and further culminate their innate drive to the highest pinnacles. Training is inevitable for all would he salesmen To ignore it is to undermine the future. Desirability of proper training becomes evident when the qualities required of a salesman are analysed

QUALITIES OF A SALESMAN

(a) **Physical Attributes** Health appearance voice dress

(b) **Mental Qualities.** *Alertness, imitative self confidence,* resourcefulness imagination, memory and foresight

(c) **Social Qualities** Courtesy, refinement good manneredness, open mindedness patience ability to meet and move with the public

(d) **Human Qualities.** Maturity tactfulness straight forwardness, loyalty

(e) **Character Qualities** Honesty, reliability, stability ambination.

When all these qualities are present it constitutes a distinct lity of an individual In the case of a salesman, the lack of

any one of these qualities would make him a halfman not fit for the selling job In olden days there was a feeling that these qualities were enough to become a successful salesmen In the present day consumers oriented market ng these qualities are not enough and a person has to acquire some additional qualities These are

(*a*) Knowledge of self
(*b*) Knowledge of the Product,
(*c*) Knowledge of the Company
(*d*) Knowledge of the Customer,
(*e*) Knowledge of the Technique of Selling

(*a*) **Knowledge of Self** This is partly an inherent quality and partly to be developed by constant self training Every individual has certain weaknesses and limitations In order to become an effective salesman he should constantly bear in mind his own defects The assessment of his own personality will better equip the salesman to face and deal with the customers He can benefit from his personality in dealing with them and avoid the display of his weaknesses This is essential as the job of a salesman differs widely in nature, demands and complexity

(*b*) **Knowledge of the Product.** One of the basic requisites for a sales job is to have a perfect knowledge of the product one handles In a competitive market, if the customers are to be persuaded and if the supermacy of the product is to be proved the salesman must have a thorough knowledge of the product The physical appearance of the salesman is not the matter to be sold, it is ultimately the product. Therefore the salesman must have a detailed knowledge regarding

(*i*) Nature of the product
(*ii*) Methods of production,
(*iii*) Materials used (ingrediants)
(*iv*) Methods of packing/packaging,
(*v*) Uses of product.

The knowledge of these could be gained only through properly organised training by the company

(*c*) **Knowledge of the Company** Selling is a process where ones ideas (in the form of product) are sold In this sense a modern salesman sell his company its prestige its reliability and its experience This makes it necessary for a salesman to know all about the company he represents. The following are the details which the salesman must know

(i) History of the Company,

(ii) Achievements/records

(iii) Sales Policies

(iv) Distribution Policies,

(v) Consumer Services provided by the Company,

(vi) Selling outlets

(d) Knowledse of the Customers A salesman must have a perfect prior knowledge of the customers to whom the products are to be sold. Consumers are human beings and their behaviour would be different from one another Their buying motives also would be different Their moods may change and often their temperaments too All these necessitate the salesman to acquire the knowledge of 'Consumer Psychology He should know at least—motives of customers nature and requirement of the customer and how to deal with different types of customers

(e) Knowledge of the Technique of Selling The knowledge of technique of selling could be acquired only through training The selling techniques to be adopted for a consumer product will not have any relevance in the case of an industrial product In order to become a perfect effective salesman a person must have all the qualities and knowledge mentioned above The personal qualities are of course inherent qualities but the varied knowledge needed could be acquired only through constant training It is therefore apt to say that 'Salesmen are not born nor made but they are born and made ' There are certain inborn qualities which should be strengthened thorough proper training. Under the pressure of modern business conditions no product could be sold unless the 'presentation were made in an effective and efficient and convencing manner

4.3 Discuss the advantages of training the salesmen and the areas of training

NEED OF TRAINING

The need of training salesm[illegible] that a newly appointed salesman does [illegible] ledge about the product he has to sell [illegible] He may not know how to sell th[illegible] them to the prospective buyers Even [illegible] acquaint them [illegible] new competitors to [illegible] to them [illegible] supply as a re[illegible]

OBJECTIVES

OBJECTS OF TRAINING

Objects of giving training to salesman may be summarised as follows

1 To acquaint the newly appointed salesmen with the principles of salesmanship and technique of selling

2 To impart knowledge of sales convassing

3 To make the salesmen familiar with the policies and products of the firm

4 To give information about the dealers and users of the firm's products

5 To keep the salesmen well informed about the laws regulating sales of gobds

6 To acquaint them with the position of competitors in the market and to show the ways of increasing sales against such competition

7 To maintain continuity in the sales efforts by keeping ready a group of trained salesmen to take place of those salesmen who retire or resign and others who may be absent

8 To weed out inefficient and unsuitable appointees

9 To reduce turnover of the sales force

10 To increase efficiency of old as well as of new salesmen

ADVANTAGES OF GOOD TRAINING PROGRAMME

According to **Harold H Maynard** and **James H. Davis** (Sales Management) the chief advantages of a good training programme are as follows

1 **Greater Sales Volume** A scientifically designed training programme results in increased sales

2. **Earlier Selling Maturity** On an average a salesman takes less time to reach normal level of effectiveness than he would have taken without training.

3. **Lower Supervision Costs** In case of untrained salesmen sales manager and other supervisory staff have to pay more visits than those needed in case of trained salesmen to keep a check on their work

4 **Lower Turnover of Sales Force** Proper training makes the salesmen well prepared for the field work. This results in reduced number of salesmen leaving their jobs The lower rate of turnover gives the advantage of reduced costs of recruitment, selection and training of new salesmen.

5 **Better Customer Relation.** A scientifically trained sales man knows how to deal with a particular situation. He does not over sell

6 **Other Advantages**

(i) Items leaving higher margin of profit can be easily sold
(ii) Lowest losses to bad debts
(iii) Reduced selling cost*
(iv) Greater average sales volume per call of the salesman
(v) Reduced number of complaints from customers.
(vi) Reduced number of calls per order secured by the salesman
(vii) Better demonstration and sales presentations
(viii) Sale of complete line of product is possible
(ix) The control and supervision of salesmen become easy.
(x) Maintenance of a cardial pleasant and continuous personal relationship with the customers
(xi) It reduces complaints

CONTENTS OF GOOD TRAINING SCHEME

Exact nature of the subject covered by any scheme of training will naturally vary from firm to firm according to the marketing considerations and characteristics of different products to be sold But in general, a good training scheme would include the following

1 Basic Principles of Salesmanship
2 Information about the firm
3 Information about the customers
4 Information about the product.
5 Information about the competitions
6 Matters pertaining to day to-day work.

1 **Basic Principles of Salesmanship.** The salesmen should be well acquainted with the buying motives of the customers and the selling points of the products They should be well versed with the methods of approaching the customers They should know the effective ways of arousing interest in the product and the art of creating desire for it They should be able to meet the objections raised by the customers All this is necessary to make sales.

2 **Information about the Firm.** Salesmen should be well informed about the past history of the firm its organisational set up and the reputation and good will it has built. Knowledge about the selling policies goes a long way to inject a sense of pride in and enable them to do their job well.

3 Information about the Customers. Different types of customers need different approaches by salesmen They must know the various types of customers and the different motives which prompt them to make purchases Some of the types of customers are silent and talkative, illtempered, suspicious, nervous, hesitant, argumentative, customers! Buying motives include considerations of health, convenience the sense of fear, pride, fashion, recreation, affection, etc.

4 Information about the Product. To be successful in increasing the sales volume of a product salesmen should possess the requisite knowledge about the characteristics of the product about its usefulness and about the method of using it Then only it will be possible for them to persuade the potential customers with convencing points regarding the product.

5. Knowledge of the Customers The salesman must also possess the knowledge relating to the products and policies of the competing firms

6. Matters Pertaining to the Day to Day Work. Salesmen should also be given proper training to know the following

(i) To draft periodical reports to the sales office.
(ii) Receipt of and replying to letters
(iii) Preparation of orders and bills
(iv) Maintenance of accounts
(v) Arrangement of display and demonstration of products.

4.4 Discuss the various methods generally adopted for training salesmen.

METHODS GENERALLY ADOPTED FOR TRAINING SALESMEN

One or more of the following methods may be adopted for training salesmen

1 Lectures,
2. Sales Conferences and Conventions
3 Sales Manuals
4 Field Training,
5 Correspondence Training and
6 Visual Training

1 Lectures Lectures by experts on various aspects of selling may be organised for the benefit of salesmen. Salesmen attending these lectures should take notes To make lectures effective usually group discussions seminers and written tests are organised to follow such lectures.

2. Sales Conferences and Conventions Salesmen may be called to attend the sales conferences at periodic intervals, say, once a week or fortnightly or monthly Officer in charge of the sales of the firm may address such conferences on selling techniques Subjects like selling policies of the firm, complaints received from customers improvements in the product, competition faced by the firm's products, proposed advertising programme etc are discussed in such conferences

Sales conventions are usually annual conferences or gatherings where business is carried on with some pageantry in addition A number of educative programmes are arranged These may refer to the various steps in the process of a sale Some entertainment items such as sales dramas, demonstrations, window dressing and so on

3 Supplying Sales Manuals A sales mannual is a guide prepared by the sales department of the company It is usually an exhaustive book describing the procedure for performing efficiently the work connected with sales It is compiled by experts who are supposed to know all aspects of the sales administration It is expected to serve as an instructor to a salesman suggesting or stating to him what he should do under different circumstances

4 Field Training This method involves the demonstration of actual work of personnel salesmanship Salesmen undergoing training accompany the trainer who actually approaches the potential customers (prospects) with the products or catalogues etc about the products to be sold The trainee salesman observes the whole process of the sales efforts being made by the trainer The trainer after the conclusion of his sales talk with the prospect explains to the trainee salesmen the various stages in his sales talk and the selling points he emphasised After this the salesman under training is asked to approach a prospect and do the whole job of sales talk while the trainer observes the whole process

5 Correspondence Training In some cities there are private tutorial colleges which post papers containing notes of lectures for the week on the subject every week to the students who join them The company can arrange postal tuition to the new salesmen They have to study the lessons carefully Doubts and difficulties of any are to be referred to the training office through post The training office writes back giving clerifications to the doubts and solutions for the difficulties of the salesmen Necessary instructions information related to the sales work are also sent to these salesmen by

post However, this method is useful only in case of salesmen possessing certain amount of experience in the field

6 **Visual Training** This method involves the use of motion pictures films radio television programmes to show demonstrations of actual steps in selling process to the salesmen Pictures depicting the work of salesmen through all the stages of a selling job are shown on television through films or motion pictures during particular hours once a week or twice a week or even daily Short plays, skits and dialogues may be broadcast through radio programmes to educate salesmen A part from being costly effectiveness of this method of training depends upon the attention paid by the salesmen the quality of the theme and the way of presenting it.

Visual training method may include use of

1 Visual Aids,
2 Audio visual Aids,
3 Audio Aids

Visual aids include the use of charts, slides, strip films Subjects which can not be made clear by explaining them are shown easily and clearly One can learn much more about a subject which is both seen and heard Manufacturing processes of the product can be shown more easily by motion pictures **Audio aids** such as recording machines are mainly used to train salesmen in the art of better speech Recorded talks may be played back before salesmen on different occasions

COURSE FOR TRAINING

The course for training must cover all that is necessary for achieving the objects of the company A complete course must include instructions on the following

Facts relating to the product
Organisation of the company
Duties of salesman
What a salesman should know and improve
History of the manufacturing process
Market for goods
Location of prospects, approaching the prospects
Interviewing the prospects awakening interest and creating desire
Meeting objections and closing
Covering the territory
Methods of pack up, channels of distribution
Terms of sale credit policies, collection of dues

Making reports
Handling difficult types of customers.
Window display
Sources of information
Making bills and writing accounts
Advertising etc.

POINTS AT A GLANCE

1 Importance of Proper Recruitment

(i) The efficiency of the sales organisation depends upon the abilities of persons that work in it.
(ii) Proper selection is the process is putting the right man in the right post.
(iii) The object of selection should always kept in mind
(iv) Wrong selection would entail waste of time and money

2 Procedure of Recruitment

(i) Job analysis—It refers to the study of what the salesman is to do
(ii) Personnel analysis—Physical, mental experience, personality
(iii) Sources of recruitment—Internal and external sources.
(iv) Selection on scientific basis—Application blank, References Personal interview
(v) Giving appointment order

3 Need of Sales Training

(i) 'Salesmen are not born but made
(ii) Training should be suitable and well planned.
(iii) Only good training and experience ensures increased sales and quick turnover
(iv) It assists in unifying all sales efforts and reducing costs of selling.
(v) Training helps in developing aptitude and makes people efficient.

4 Methods of Training Programme

(i) Job training.
(ii) Lectures.
(iii) Correspondence Training
(iv) Internship Training.

(*v*) Role Playing
(*vi*) Sales Meetings and Conferences
(*vii*) Brain Storming
(*viii*) Visual Training
(*ix*) Trough Sales Manuals

Each of these methods has its own merits and demerits

5 Outline of a Training Programme

(*i*) Knowledge of the job
(*ii*) Knowledge of the products
(*iii*) Knowledge of the customers
(*iv*) Knowledge about publicity
(*v*) Knowledge about competitors and substitute products.
(*vi*) Knowledge of the company organisation

(*v*) Role Playing
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(iii) Correspondence Training

(iv) Internship Training.

sales force are closely related to the method by which sales efforts of the salesmen are compensated for The method of remuneration will differ from firm to firm but certain general principles can be of interest while developing any method of remuneration for salesmen

GENERAL OBJECTIVES OF A REMUNERATION PLAN

1 It should direct salesman s efforts and activities to the profitable end for the firm

2 It should enable the firm to attract, retain and develop a contented, efficient and loyal sales force

3 It should help in the early elimination of the men who do not fit into the long run plans of the firm

4 It should enable the firm to control and direct the activities of the salesmen

5 It should not need frequent changes

6 It should provide for extra benefits for doing duties other than selling

7 It should stimulate the salesmen to put forth his best efforts in the accomplishment of his tasks by establishing visible correlation between efforts plus results and rewards

8 It should cause the salesmen to give proper consideration to the interest of his customers

9 It should ensure the full support of the sales force

10 It should be simple enough to be understood by a salesman of ordinary prudence and intelligence

ESSENTIAL ELEMENTS OF A GOOD REMUNERATION PLAN

A good remuneration plan will help in developing a loyal sales force Loyalty will ensure long service with the firm and the turnover of the salesmen will be minimised The features of a sound remuneration plan can be listed as follows

(i) **Simplicity** It should be easily understood by salesmen of average intelligence

(ii) **Flexibility** It should be flexible enough to meet the varying needs of different sales territories and variations in the status of salesmen

(iii) **Proportionate Reward** It should bring the monetary reward to the salesmen in proportion to the extent to which he attains the objectives determined for him.

5

Remuneration and Supervision of Salesmen

INTRODUCTION

Compensation plans are a compromise between the needs of management and those of the salesman and rarely satisfy either party "

—B R. Confield

A salesman has got certain distinct characteristics which distinguish him from other salary earners He is a person who can sell himself with skill and technique His reumneration is not a simple problem In fact a good salesman writes his own cheque We shall try to study in the chapter the various aspects of the remuneration of salesmen A firm loses best salesmen if comission system does not ensure minimum remuneration Remuneration is an important factor affecting the efficiency and performance of the sales force Supervision and control of salesmen is equally essential to achieve maximum success It is the duty of the sales manager to evolve an effective and purposive method of supervising, directing and controlling the activities of the salesmen

5 1 What are the essential elements of a good remuneration plan ? Discuss the various methods of remuneration pointing out merits and demerits of each method

IMPORTANCE OF EQUITABLE REMUNERATION

Salesmen are mainly responsible for the income an organisation makes Where salesmen are slack even a company with good products suffers losses on account of its poor performance on the sales side But when salesmen are given good treatment and paid satisfactory remuneration they become active and increase sales even if the products are not up to the mark Hence it is for the management to see that proper attention is given to the sales force and their remuneration Contentment efficiency and loyalty of a

window or store display, making store demonstration, etc

(ii) It tends to eliminate or at least minimise, pushing items which are not best suited to the customers

(iii) It helps in building a continuing sales force loyal to the firm

Disadvantages

(i) There is no direct incentive for hard work.

(ii) Salesmen with longer service are paid for more per rupee sales than those with shorter service

(iii) Some salesmen are paid too much, others not enough This may kill initiative to increase sales

(iv) Payments made to salesmen are not in proportion to sales made

The Straight Salary Method is best when the salesman's efforts are required for a long time to cultivate a market, when the sales work is considered as part of a training period and when it is possible to adjust payment to performance

2. Straight Commission Method

This method of remunerating salesmen is based on the actual sales made or orders secured by each salesman and not on the basis of time spent on the job. Payments made for actual achievement and not for the time spent It can be used only achievements can be measured in terms of valve or volume The rate of commission may vary from product to product and according to the size of orders

Merits

(i) There is direct relation between the direct selling costs and sales made. Therefore, it is very important for new firms which can not take risks of salary method

(ii) Costs of sales can be budgeted in advance

(iii) It provides incentive for both hardwork and skill for selling.

(iv) It is suitable for a firm using salesmen selling products of many firms in the same market.

(v) It helps in securing the services of such salesmen who cannot be had on permanent staff of the firm.

(vi) Cost of administration is low

Limitations

(i) It tends to substitute the interests of the salesmen for those of the buyers and the firm.

(iv) **Controlled Incentives** Direct incentives such as inclutive payments provided for reaching a particular sales volume must be carefully controlled by the firm.

(v) **Low Administrative Cost** The cost of administration of the plan for computing salesman's earnings should be as low as possible.

(vi) **Promotion** Provision should be made for promotion in pay and reward for continuous efficient service Promotion from the lower salary scale to the higher one and periodic increase in the same pay scale may be included in the plan for the purpose

(vii) **Uniform Earnings** As it is difficult to adjust one's standard of living at frequent intervals, the plan should ensure the salesmen reasonably uniform earnings every month enough to maintain themselves and their families at a uniform level of living.

(viii) **Promptness** Reward to be effective must follow closely the services rendered or objectives attained

(ix) **Fairness** It must be fair to both the firm and the salesmen. Also these should not be any room for discrimination against or favour for any individual salesmen

METHODS OF REMUNERATION

The various methods of remunerating salesmen may be discussed as under

1 Straight Salary Method
2 Straight Commission Method
3 Combination of Salary and Commission
4 The Bonus Plan
5 Profit Sharing

1 Straight Salary Method

Under this method salesmen is paid a fixed amount by way of his salary at the close of every month. Salary paid to him is irrespective of the sales made by him during the month Increments are given in the salary scale The method is suitable when several salesmen cooperate in making a sale where there are considerable seasonal variations in sale and when the firm sells to different classes of customers and when the work of the salesmen can not be measured

Advantages

(i) It permits the firm to direct the efforts of the salesmen towards more desirable activities such as careful cultivation of customers opening new territory installing

window or store display, making store demonstration, etc

(ii) It tends to eliminate or at least minimise, pushing items which are not best suited to the customers

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Disadvantages

(i) There is no direct incentive for hard work.

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(vi) Cost of administration is low

Limitations

(i) It tends to substitute the interests of the salesmen for those of the buyers and the firm.

(*ii*) Salesmen take resort to undesirable methods of selling to increase the volume of the sales

(*iii*) Salesmen tend to take away the cream from a sales territory by selling to the ready customers and ignoring new and potential customers

(*iv*) The method puts emphasis on immediate sales volume It is inconsistent with sound customer service such as installation of equipment instruction in the use of the product, attending to minor repairs and adjustments and advice on promotion and display

(*v*) Salesmen remunerated on straight commission method will have to support themselves from other sources of income during the initial period

(*vi*) The method is unsuitable during the period of wide fluctuations in prices and demand and supply position such as during depression and war period

(*vii*) There is uncertainty about the income of the new appointed salesman Also there is no security about uniform earnings

3 Combination of Salary and Commission

Both the straight salary and straight commission methods have their limitation new methods have been developed These are based on the combination of the principles of guranteed income as incentive The objective of the use of combination of salary and commission method is to do away the the limitations of both straight salary and straight commission methods while retaining the chief advantages of each of the two methods Under this method *each salesman is guaranteed of a minimum salary at the end of each month in service* Over and above this guaranteed amount he receives certain commission on his sales Thus the saleman has the security of income to the extent of the guaranteed amount of monthly payment His firm gets the right to use him for customer services not directly related to sales volume The commission provides for an incentive to increase sales *This method of payment* may take any of the following forms

(*a*) Salary plus commission on all sales
(*b*) Salary plus commission over quota

(a) Salary Plus Commission on All Sales This is mos widely used method The salesman is paid certain predetermine

amount as salary In addition to this amount of salary he is paid commission on all the sales made by him

(*b*) **Salary Plus Commission Over Quota** Under this method a predetermined fixed amount is paid every month Over and above this amount salesmen receive commission of sales made But the commission become payable only after the quota of sales fixed for each salesman is reached Each salesman has to qualify himself for the benefit of commission by selling the minimum quantity fixed for him over a period of time

4 Bonus

Maynard and Davis defined bonus as a payment which is not directly and progressively related to sales, items sold or any other unit of sales accomplishments Payment of bonus is made over and above the amount of salary or the amount of salary plus commission Different firms use different bases for making bonus payment Bonus payment may be made for the number of new customers to whom sales are made for increased sales to old customers for selling special items for exceeding quotas for aggressive selling or for showing initiative in reducing selling costs or rendering services such as making collections making suggestions regarding display advertising etc

Advantages of Bonus Bonus is useful as a supplement to other methods of remuneration It provides an incentive for doing what the firm would like the salesmen to do It strengthens the hands of the sales manager to direct the efforts of his sales force in desired channels by indicating the activities which would be taken as basis for awarding bonus However the system [illegible] complicated record keeping and hence is very costly

5 Profit Sharing

Some firm disburse a portion of their divisible profits amongst their salesmen thus in effect giving a share in the profits earned by them to their salesmen The amount to be disbursed may be calculated on the basis of overall profits of the firm or the profit earned on sales in a given sales territory. Profit sharing plan [illegible] supplementary to a basic method of remuneration such as salary [illegible] commission may be helpful in stimulating [illegible] of [illegible] But profit sharing as a basic plan of remunerating [illegible] not be commended because profits [illegible] depend [illegible] policies As salesman have no voice in determining [illegible]

their basic earnings should not be tied with the existence of profit or loss

5 2 Discuss the various methods of reimbursement of travelling expenses

A part from remunerating salesmen in consideration of their sales efforts they are also paid the amount spent by them on travelling etc Many salesmen have to travel extensively to contact prospective customers Expenses incurred in this connection must be reimbursed

PRINCIPLES OF REIMBURSING SALESMAN'S TRAVELLING EXPENSES

(i) All expenses which the salesman would not have incurred had he not been away from home should be met fully

(ii) Sufficient hints should be given to the salesmen to keep expenses reasonably low without sacrificing personal comfort or curtailing necessary activities

(iii) Care should be taken to avoid chance of and dispute between the firm and the salesmen overtravelling expenses

(iv) Settlement of travelling expenses account should not involve complicated and costly clerical process

METHODS OF REIMBURSEMENT OF TRAVELLING EXPENSES

Different methods are followed for the reimbursement of travelling expenses Some of the important methods are as follows

(i) **The Honour Method.** Under this method details of expenditure are not submitted only the totals are mentioned in the report to the company It is left to the salesman s honour to spend the money wisely Full amount is reimbursed believing in the honesty of the salesmen

(ii) **The Exact Method.** Under this method weekly reports of actual expenses item wise are submitted by salesmen After the items are checked in the office payment is usually immediately made This method is followed for salesmen not travelling regular routes and whose expenses vary from week to week

(iii) **Allowance or Limited Method** Under this method the firm lays down the maximum amounts which can be spent on various items This is based on the prudent study of the cost of

various items like lodging, boarding and other facilities in a sales territory

(iv) The Flat Daily Living Expense Rate If the salesmen travel the same route week after week, expenses on hotels travel etc would be the same every week In such cases a flat rate may be fixed up

(v) The Expense Quota Method Under this method the *firm lay down the maximum amount which it will pay towards* meeting the travelling expenses of a salesman every month All the expenses reported by the salesmen within this limit are paid by the firm If the salesmen spend in excess of this maximum limit, he has to meet this excess expenditure out of his own earnings

5.3 What are the requisites for effective supervision and control of salesmen? Discuss the main aspects of control of salesmen.

NEED FOR SUPERVISION AND CONTROL

The supervision and control of salesmen is very essential for a sales organisation to achieve maximum possible success However scientific the selection and training of salesmen it is the duty of the sales manager to evolve an effective and purposive method of supervising directing and controlling the activities of the salesmen so as to secure the most effective and economical performance from them A part from the fact that salesmen are after all human beings the need of supervision and control arises basically out of the following two factors

(a) Salesmen works independently often at a long distance from the sales manager Therefore, coordination and correlation of salesman s efforts with other sales efforts such advertising, sales promotional efforts etc become necessary

(b) Supervision of a superior officer is advantageous in making the salesmen work more regularly and in channelising his efforts to the most desired end from the firm s view point

PRE-REQUISITES FOR EFFECTIVE SUPERVISION AND CONTROL

According to **Harry R Tosdal**[1] effective supervision and control of sales force pre supposes the following

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1 *Introduction to Sales Management* by **Harry R. Tosdal**, 4th ed., pp 666-67

(i) The sales manager should know what exactly does he expect a salesman to do

(ii) Salesman should be given clear idea of what he is expected

(iii) Sales manager should know that the salesman is doing what he is expected to do

(iv) Salesman should be made to know that the sales manager knows what he does

(v) Salesman should know that the sales manager appreciates what he does

The first condition is met by establishing sales quotas for individual salesman

The second condition is achieved during training period by giving the exact knowledge of salesmanship

The third pre requisite is met through periodic reports from the salesman on about his performance

The fourth and fifth requisites are fulfilled through reports and records and personal talks across the table with the individual salesman

ASPECTS OF CONTROL OF SALESMAN

According to **Whitehead**[1] there are three main aspects of the control of salesmen

(i) Activities of the salesman are to be so directed that they fit into the general marketing plan of the firm

(ii) Salesmen s results are to be analysed with a view to

(a) ensure achivement of predetermined standard of efficiency on their preformance and

(b) determine the ratio of selling expenses to sales

(iii) Actual supervision and guidance to individual salesman whenever necessary

The first aspect is directly concerned with the sales manager s duty to see that salesmen s efforts are concentrated in effective execution to the sales plan With this end in view sales territories are allocated to individual salesmen and their routes are planned Also they are told as to how much efforts should be put

1 *The Administration of Marketing and Selling* by **Harold Whitehead 2nd ed pp 198**

on to sell a particular line of products, to sell to new customers and to retain old customers

The second aspect involves finding out whether each salesman is doing what is expected of him This is done by comparing sales achieved by him with sales quota allocated to him. Analysis of his sales records would be helpful in detecting errors and shat falls if any as well

The third aspect covers the steps necessary to discover the cause of errors and failings if any and measures to rectify such errors For this purpose salesman's actual working may be observed and he may be helped in improving his selling techniques by instructions, suggestions and example

5 4 Disscuss the various methods of control over salesmen exercised by the Sales Manager

METHODS OF CONTROL

According to **Harry R Tosdal**[1] control over salesmen may be exercised either (*a*) by Personal contact, or (*b*) by Correspondence or through reports

(*a*) **Personal Contact** Personal contact is the chief and most effective method of controlling salesmen It may be done by sales manager himself or through regional divisional, district and branch managers if the concern happens to be fairly large The field supervisors also occupy an important place in any scheme of control through personal contact However this method is bit expensive When the organisation expands in larger size and larger sales force is used to operate in more than scattered and wider areas it becomes more and more difficult to exercise effective control through this method

(*b*) **Correspondence** Correspondence is the most commonly used method of given instructions to and securing information from salesmen This method can be used as a suppliment to the personal contact method

(*c*) **Reports** Reports may be daily weekly or even monthly These reports may be oral or written Generally reports are made in the prescribed form Written reports are preferred to oral reports

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1 *Introduction to Sales Management* by **Harry R Tosdal**, 4th ed , pp 667

This will depend upon the following factors

(i) The length of time for which a salesman is away from head office

(ii) The length of the trip

(iii) Distance of the sales territory from the head office,

(iv) The importance of information for the decision to be taken by the sales department, and

(v) Number of salesmen the sales manager is dealing with

Thus control of the salesmen is based on one or the more of the following

(i) Records and Reports

(ii) Sales Territories and Sales Quotas

(iii) Determination of Sales Authority

(iv) Field Supervision

(v) Encouragement of Salesmen through remuneration

1 Records and Reports

Record of salesman performance is prepared in the sales office on the basis of reports receive from him Such a record gives an idea of the salesman's work with reference to

(i) Selling expenses for each order secured,

(ii) Average size of order,

(iii) Sales of different lines of products

(iv) Number of new customers obtained

(v) Number of old customers lost

(vi) Number of repeat orders booked.

The reports of the salesmen cover the following points

(i) Number of calls mades with relevant details about each call

(ii) The total volume and value of sales made

(iii) The number of new customers contacted and sales made to them

(iv) Number of old customers lost and reasons thereof

(v) The expenses incurred

(vi) Information about credit worthiness of the customers

(vii) Collections made

(viii) Effectiveness of the advertising and other sales efforts

(ix) Competition in the market and business prospects

(x) Complaints from the customers

The reports are very useful as necessary action can be taken the basis of careful study of the salesman s reports. Also these

reports encourages salesmen to developthe useful habit of self analysis.

2. Sales Territories and Sales Quotas

Sales Territories Each salesman is assigned a particular zone in which he is to carry out his selling activities Sales territories are determined on the basis of demand for the product, the extent of competition, available means of transport and communication, types of customers and the capacity of salesmen The salesmen have to follow the predetermined routes within his sales territory This involves the determination of places to be visited, the number of customers to be contacted and the number of calls to be made every-day

Advantages of allocation of Territories

(i) Activities of the salesman can be effectived controlled and evaluated

(ii) Market potentiality of each territory can be fully tapped

(iii) Sales efforts can be well planned and duplication of efforts avoided

(iv) It provides incentives to salesmen to increase more sales.

Sales Quotas. Quota is the amount of business the sales manager fixes for each salesman First of all the sales manager plans the amount of business to be achieved Then he allocates the quota for each territory Sales quota to be effective must be based on objective factors operating in the market.

Advantages of Fixing Sales Quotas

(i) Quota forms an essential part of sales budgeting.

(ii) The system stimulates selling efforts of the salesmen

(iii) It is the most feasible way of measuring the effectiveness of each salesmen performance

3 Salesman's Authority

Often salesmen are the only persons in whose contact customers of the firm come Infact, for the customers they are the firm. Therefore salesman s authority must be well defined and clearly stated Catalogues and price lists put a limit on his authority But the sales manager may allow certain measure of authority to him in matters such as granting of credit to customers discount rates special concessions, presale and aftersale services settlement of claims etc But a salesman has to see that he acts in these matters in ascordance with the specific instructions of the sales manager

4 Field Supervision

Some firms give free hand to their salesmen in the field others provide for close supervision Certain measure of control and supervision over the salesman s movement is desirable and necessary Main objective of field supervision is to see that salesmen are doing their work in the best way The method followed is that the sales manager or the branch or district manager accompanies the salesman on a few calls studies the procedure and makes suggestions for improvements if necessary

5 Remuneration of Salesmen

(This has been already discussed earlier in the chapter)

POINTS AT A GLANCE

1 Essentials of a good Scheme of Remuneration

(i) It must provide for a certain minimum monthly income A salesman must not be penelised with no pay if fall in sales is due to extraneous circumstances

(ii) It must enable industrious salesman to augment his income

(iii) It must stimulate the salesmen to exert their best and sell more

(iv) It should be simple and easy to be understand by a salesman of ordinary prudence and intelligence

(v) It must be so devised that it requires least revision

(vi) Is must be equitable

(vii) It must attract talent and skill

(viii) The payment should be regular

(ix) There should be proper incentive or bonus schemes for higher efficiency salesmen

2 Methods of Remuneration

(i) Straight Salary Method

(ii) Straight Commission Method

(iii) Salary Commission Method

(iv) Profit Sharing Method

3 Advantages of Straight Salary Method

(i) Easiest and the simplest method

(ii) Clerical work reduced to minimum.

(iii) Gives stable earning to the salesmen

(iv) Salesmen are not jealous of one another

(v) It is quite attractive method coupled with increment and promotion

4 **Disadvantages of Straight Salary Method**

(i) Does not take into account of the special efforts of efficient salesmen

(ii) Idle salesmen do not get incentive to become more active

(iii) The company has to pay the salary even if sales fall through the incapacity or inefficiency of the salesmen

5 **Similarly there are merits and demerits of other methods of remuneration** like straight commission method and salary and commission methods Best method is the one which combines the features of monthly salary a commission on sales above a certain level and fringe benefits of P F etc

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6

Marketing Research

INTRODUCTION

"By contributing toward reductions in the cost of distributing goods from producer to consumer marketing research makes it possible for the consumer to enjoy better products at lower prices than would otherwise be possible By thus enabling each dollar to buy more, the entire standard of living of the people is raised to higher level —**A.C Nielson**

Marketing Research by providing the relevant facts can help enough executives to raise the level of their works Marketing research collects, records and analysis the data about marketing problems to facilitate decision making Marketing research reduces the risks involved in marketing decisions In the complicated business world of today importance of market research is immense We shall see in *this chapter how market research in various fields helps in* decision making

6 1 **"Marketing Research is a continuous process of estimating sales potential ' Elaborate**

Or

Define 'Market Research' How market research is connected with marketing information system ?

MARKET RESEARCH—DEFINITIONS

1 Market research is the systematic, objective and exhausive search for and study of the facts relevant to any problem in the field of marketing —**Richard Crisp**

2 Marketing Research is the systematic gathering recording and analysing of data about problems relating to the marketing of goods and services from the producer to the customer

—**American Marketing Association**

3 "Market research in an ancillary service that allows management to manufacture with a better idea of what can be sold and how much can be sold and to a market with a better idea of how to combine the various tools of selling to minimise waste"

—Dr Albert D Blankenship

4 "Market Research is the systematic and continuing study and evaluation of all factors bearing an any business operation which involves the transfer of goods from a producer to a consumer"

—A.H.R. Delens

5 Market Research "is an organised attempt to reduce market risk, and the principal task of market research is to widen the basis of facts upon which the business plans are laid"

—Vaile, R.S and P.L. Slaya Vold

The above definitions clearly bring out the meaning and purpose of market research Market research is a detailed study by the manufacturers of the markets as to how the consumers react with the products such as their tests quality innovation quantity, utility etc It provides detailed data which is useful in decision making. In modern industries market research has become an important matter In the past the market information collected was not profitably used. In most cases the process ended with the mere collection of information Only later it was found out that such data are very valuable assets and are capable of rendering invaluable services to the marketing organisation The application of Mathematics and Statistics gave a new life to such data. It was discovered that using the data in a scientific manner could solve many problems

MARKETING INFORMATION, MARKETING RESEARCH AND MARKET RESEARCH

As in the case of large number of terms in marketing here also these term are often used interchangeably and that too in a very inappropriate manner The fundamental difference between marketing system and marketing research is that the farmer in perfectly systematic in all respects while the latter is most unsystematic According to W J Stanten the marketing information systems were developed in 1960 s Marketing Research on the other hand identified as a separate activity predates the marketing information sytems by fifty years

The other differences could be stated as follows

1 Marketing information system suggests methods to prevent

and solve the problems for the whole organisation under different perspectives e g sales advertisement, cost of distribution, etc While Marketing Research presents the problems and that too only in a particular field of activity

2 In the marketing information system the past experiences form the basis for future and the results are future oriented, while in Marketing Research it is only a post morten of what has taken place

3 Marketing information system is a fairly wide concept and includes marketing research as one of its elements while Marketing Research remains as a source for contributing necessary information to the information system

Notwithstanding these differences one can not question the usefulness of each of these functions Both of them have one thing in common they are both management functions and provide necessary information to management

Market Research is only a part of Marketing Research and covers only a few aspects of marketing Simply stated it is only a sub function of marketing research Some companies use the term market research instead of marketing research The former term is accurate for describing research into markets their size, geographical distribution incomes and so on However, it fails to cover the idea of research into the effects of marketing efforts on markets for which the term Marketing Research is more appropriate Marketing research is increasingly coming into favour as the term covers both ideas "[1]

ELEMENTS OF MARKETING RESEARCH

The chief elements of Marketing Research are as follows .

(i) Market Research
(ii) Sales Research
(iii) Product Research
(iv) Packaging Research
(v) Advertising Research
(vi) Business Economies Research
(vii) Expert Marketing Research

(i) Market Research It covers the aspects regarding size and nature of the market including exports markets, dividing the

1 **Philip Kotler**, *Marketing Management* 2nd Ed p 292

consumers in terms of their age, sex income (market segmentation) It covers the economic aspects of marketing

(ii) Sales Research It relates to the problem of regional variations in sales, fixing sales territories, measurement of the effectiveness of a salesman evaluation of sales methods and incentives etc

(iii) Product Research It relates to the analysis of the strengths and or weaknesses of existing products product testing, problems relating to diversification simplification trading up or tradidg down, (i e, all product line decisions) etc

(iv) Packaging Research In essence it is a part of product research But recent development in packaging and its contribution to advertising has led it to occupy an independent position of packaging To know the impact and its response in the market has become an independent research field

(v) Advertising Research It undertakes a study relating to the preparation of the advertisement copy (copy research) the media to be used (media research) and the measurement of advertising effectiveness

(vi) Business Economies Research Problems relating to input output analysis forecasting price and profit analysis, preparation of break even charts are the main fields of this research

(vii) Export Marketing Research. This research is intended to study the export potentions of the product. In such cases any or all kinds of research mentioned above become necessary

Thus in modern industrial world marketing research has become an important segment It provides detailed data which is useful for decision making Not only sales are increased by improving the quality and of the products but also wastages can be minimised and marketing costs be reduced

6.2 Discuss the usefulness of marketing research from the point of view of Indian business and Industry What is the scope and objective of marketing research ?

SCOPE OF MARKETING RESEARCH

Marketing research is of a comparatively recent origin It is stated that the first formal marketing research organisation was set up in the U S A in 1911 Its growth in a short span has been tremendous It has in the course o ldevelopment sophisticated its

methods and methodologies in the application of statistical techniques and behavioural science concepts. The use of marketing research in consumer markets is now resasonably wide spread

The three terms have been used widely to denote the same meaning They are Market Research, Market Analysis and Marketing Research In reality Marketing Research is of wider meaning as it consists of all research activities in the field of marketing including market analysis. **Richard D Crisp** has put in his "Marketing Research' —"Marketing Research" is the systematic objective and exhaustive search for and study of the facts relevant to any problem in the field of marketing' It includes various subsidiary types of research like

Market analysis, Sales analysis Consumer research, Advertising research

Though no single definition has been accepted as delineating the exact Scope of Marketing Research as it is continuously expanding marketing research can be taken as the term applied to any critical and searching study an investigation of a problem hypothesis or proposed course of action conducted systematically and objectively to uncover facts useful in the field of marketing It includes numerous types of studies and the tapping of diverse information sources. Marketing research studies have been grouped under four major categories -

(i) Marketing measurement studies
(ii) Studies of influences of controllables
(iii) Studies of the competitive situation
(iv) Studies of uncontrollable

ADVANTAGES OF MARKETING RESEARCH

1 It ascertains the position of a company in a specific industry
2 It indicates the present and future trends of the industry and thus points out how the company s affairs are to be managed
3 It helps in the development and introduction of new products
4 It offers guidence for improving the current products of the company
5 It help in assessing and enhancing the effectiveness of sales management
6 It can reduce the risk involved in marketing decisions.

The above uses can be restaled as follows

Marketing research helps the company in knowing the market, filling a product to the market and finally selling a product This is evident in the words of **Dr Albert B Blankenship** who described Marketing Research as "an ancillary service that allows the management to manufacture with a better idea of what can be sold and how much can be sold and to market with a better idea how to combine the various tools of selling to minimise waste '

The usefulness of marketing research has become still greater under the present pattern of large scale production and international market The production of the right type of goods is possible only when the manufacturer knows not only the exact needs of the consumer but also the price at which he can market his goods Besides it would be useful to assess the relative merits of various methods for example whether changing the existing channel of distribution or altering it should safeguard his interests through marketing research in the same way as the pilot of an aeroplane uses a number of sophisticated instruments to navigate and fly Because of marketing research the manufacturer is able to take correct decisions *distinguishing the woods from the trees'*

6.3 What are the functions of marketing research ? Explain the various steps in Marketing Research process

FUNCTIONS OF MARKETING RESEARCH

The functions of marketing research can be best summed up in two words Consumer s Preference Marketing research has proved to be an intelligent and intelligible guide to

(a) The production of marketable goods

(b) The distribution of marketable goods

(c) The size, nature and organisation of the sales, and

(d) The demand creation activities

There are only a few of the limitless functions of marketing research. It is the balancing wheel of the marketing system which harmonises the supply and demand factors Properly organised marketing research is capable of eliminating waste in the process of distribution It is a panacea for all marketing ailments and hence is regarded as one of the basic tools of modern marketing. Other purposes of marketing research are to know and estimate

(i) What is the demand of the product in the market ?

(*ii*) What should be the desired features of the product ?

(*iii*) What are the channels to be used ?

(*iv*) What should be the price of the product ?

(*v*) What improvement are to be made to meet the demand

(*vi*) Finding out new market for the products

Market research is of great help to the manufacturers to manufacture the product which suit the demand Prices can also be adjusted by looking to the capacity of the potential buyers Sales can be increased by improving the quality and utility of the products as per the choice of the consumers Wastage can be minimised and hence costs of marketing can be reduced New markets can be explored and large scale economies can be effected in purchasing and distribution etc It also helps in discovering new lines of products. On the basis of market research unwanted product can be discarded and new ones can be produced

STEPS IN MARKETING RESEARCH

Mere collection of information does not complete marketing research The information must be collected and processed in a scientific manner to make it more meaningful and useful It is here that marketing research is applied and it calls for a high degree of competence and training There are seven principal steps that are to be taken in this process

(*i*) Problem Formulation

(*ii*) Decision on Fact gathering Procedure

(*iii*) Data Collection

(*iv*) The Marketing Sample

(*v*) Data Evaluation

(*vi*) Interpreting the Data

(*vii*) Report Preparation

(*i*) Problem Formulation The precise definition of the problem helps in determining the techniques to be used the extent of information to be collected etc Simply stated one should be clear in his mined what is exactly required Marketing elements of the problems should be isolated and identified in precise terms

(*ii*) Decision on Fact gathering Procedure After defining the problem the second step, is to find out the procedure for getting information In technical language this is known as planning the research technique The procedure requires the following steps

(*a*) Establishing the fact that are available at present and the additional facts required

(b) Determining the reliability of the available data, and
(c) Setting an organisation for the collection of additional information required

(iii) Data Collection. When the available data are insufficient, fresh data have to be collected Usually 'survey techniques are used for gathering information It need not be an elaborate survey for a sample survey would be quite sufficient. This is the method of obtaining information from sample of respondents (groups) The sample is supposed to represent a larger group of people i e, the universe sometimes all the people

(iv) The Marketing Sample The sample is a small group taken from the total group The total may be a city, a state, a nation or the whole world Sampling is essential to substantiate and interpret the data

(v) Data Evolution. Locating the source and collecting the information is only a part of the job The data collected cannot be simply accepted because they might contain unnecessary and/over or under emphasised facts The remark 'Figures do not lie, but liars figure is apt here For from the same set of facts different interpreters will draw different conclusions depending upon their individual view points their interests and their individual biases

(vi) Interpreting the Data This is an important stage in the process of research Correct interpretation of data makes the research meaningful and purposeful It is at this level that unorganise and unscientific research fails The best fact finding study would become useless by wrong or improper interpretation of facts The Technical competence broad understanding intimate knowledge of the problem at hand are some of the prerequisites for a correct interpretation of the data

(vii) Report Preparation. The final step in marketing research is summarising the result of the research and making a report The findings and recommendations are put in such a manner that the recipient of the report can understand them clearly enough to use them effectively In general the reports are classified into four kinds

(a) Executive Report
(b) Technical Report.
(c) Data Report
(d) Popular Report.

(a) **Executive report** This report is meant for an executive to carry out the plan as quickly as possible He needs not interpret the facts once again and make a thorough study of it

(b) **Technical report** Such a report contains the statement of the problem the methods used in the research The purpose of a technical report is to collect and present necessary technical information

(c) **Data report** It is a peculiar report for it does not contain any interpretation I merely presents the findings in tables and charts but does not seek to interpret what these findings or data mean For example it may give the sales volume in a particular area for different periods without adding any rea on for their fluctuation

(d) **Popular report,** This also knows as Persuasive Report It is non technical and hence of no value in commercial field, Narrations of an incident is a kind of persuasive report ,

Some authorities group the above mentioned seven steps under three heads

(a) Information
(b) Interpretation,
(c) Recommendations

6 4 Discuss the relative advantages and disadvantages of different operational techniques used in assembling data in field surveys

SOURCES OF INFORMATION FOR MARKETING RESEARCH

One of the important tools for conducting marketing research is the availability of necessary and useful data Data collection is more of an art than a science The methods of marketing research are in a way the methods of data collection The sources of information fall under two categories

(a) Internal Sources and
(b) External Sources

(a) Internal Sources

A business organisation has to keep certain records such as financial accounting records sales records reports from salesmen, etc These records provide ample information ; Good use can be made of the various information which an organisation usually

keeps collecting in its own working Sales analysis is one such important use of such an information. Sales analysis can be split into three parts ,

(i) Product analysis,

(ii) Territorial analysis, and

(iii) Customer analysis

(b) **External Sources**

When internal records are insufficient and the required information is not readily available, the organisation will have to depend on external sources The external sources of data for marketing research fall into two broad sub categories

(a) Primary data and

(b) Secondary data.

Primary Data. The data collected for a purpose in original is known as primary data It consists of all answers obtained first hand The sources of primary data are divided into basically Internal and External. Internal sources are records and reports in the sales office The external source includes the salesmen, dealers and consumers

Secondary Data The data which is collected from the published sources, i e not originally collected for the first time is called secondary data Suppose we want to know the population of a city we need not go from house to house to collect the same but can refer to census report.

Various External Sources of Information for Marketing Research

(a) **Private Sources.** There are as many as over twelve thousand publications in India (Dailies Magazines Weeklies, etc) in different languages Some of these specialise in industrial field These give a wide coverage of information pertaining to the concerned fields Voluntary organisation such as Chamber of Commerce Trade Associations, etc. issue bulletins regarding prices and stocks of some commodities

(b) **Government Sources** Reserve Bank of India Bulletin Agricultural situation in India I S I Bulletins Besides these there are publications of the Marketing Research and survey wing of the Directorate of Marketing and Inspection the National Council for Economic Applied Research (NCI RT)

(c) **In ernational Sources** U N Statistical Year Book,

Balance of Payment Year Book (IMF), Year Book of Food and Agricultural Statistics and International Reports on Cotton, Sugar, Tea etc

Much information about the market cannot be obtained from an analysis of the internal records of the business concern or from external sources of information Therefore, when all the reasonable sources of information from internal and external sources are exhaused and still certain valuable information about the market are lacking the business executive turns to the method of direct market research There are three widely used methods of obtaining information through direct market research These are

(a) Survey Method
(b) Observation Method and
(c) Experimental Method

POINTS AT A GLANCE

1 **Meaning of Market Research** ' Gathering recording and analysing of data about problems relating to the marketing of goods and services

—American Marketing Association

2 **Purposes of Marketing Research**

(i) To know the actual demand of the product in the market
(ii) To know the desired features of the product
(iii) To discover the most suitable channels of distribution
(iv) To know what improvements are to be made to meet the demand
(v) To determine the price of the product.
(vi) Finding out new markets for the products

3 ***Market research is detailed study of the markets*** *as to* how the c umers react with the products such as their tastes quality innovation quantity etc It provides detailed data which is useful for decision making

4 **Uses of Market Research**

(i) Helps the manufacturers to manufacture products which suits the demand
(ii) Prices can be adjusted by looking to the capacity of the potential buyers

(iii) Sales are increased by improving the quality and utility of the products as per the choice of the customers

(iv) Wastage can be minimised and hence cost of marketing be reduced

(v) New markets can be explored and to resort to effect large scale economies of bulk purchase of raw materials and distribution etc

(vi) It helps in discovering new lines of products

(vii) Unwanted product can be discarded and new ones are added

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7

Market Information

INTRODUCTION

'Market information includes gathering and interpreting facts estimating the value and prices to be paid for a product and identifying the type of consumers who will purchase it'

—**Heidingfield and Blankenship**

An effective Marketing Information System (M I S) makes it possible to reduce the volume of intuition based decisions as it makes available to decision makers relevant and usuable information for making marketing decisions A clear need exists for coordinated, systematic and continuous information gathering. This task is handed over to Marketing Information System M I S provides a mechanism for reducing the overwhelming flood of available marketing information to pertinent usuable amounts and tailoring information outputs to fit each executive s individual information needs The M I S gathers information from various sources—department files raw data summary statistics qualitative inferences expert and lay opinions impressions and even rumours

7 1 What is the importance of Market Information for marketing research ? Explain the methods of collecting market imformation

MARKETING INFORMATION THEN AND NOW

In the past changes were gradual and supply was generally the problem rather than the disposal of output Demand was then of a basic nature and almost insatiable There were no problems of choice The market was purely a seller s market with great emphasis on production Gradually the problem of the distribution of output become more and more complex The problem encoun- were actually not of selling the produce but of creating time

and place utilities. Business gradually began to realise its role of meeting the consumer needs and accepted 'Consumer Orientation'. This required quite a new range of techniques. There arose a new formulation of marketing namely the collection of market information. The need for information came to be felt all the more when the local markets expanded into national markets and ultimately widened to an international level. Expansion of markets necessitated collection of information about competition, consumers and their behaviour etc. In all these cases the manufacturers required information for preventing and solving problems of the following nature

(a) Who are the customers and where do they live ?
(b) What are the products needed by customers ?
(c) Why do they insist on a particular product ?
(d) When do they want the products ?
(e) How big is the market ?
(f) Where are the products to be made available ?

For answering these questions and many more the producers require lot of information. That is why the collection, analysis and interpretation of proper, relevant and timely information has become a major management function today. It is one of the facilitating functions which smoothers marketing activities. It is also capable of creating confidence in the minds of producers to meet any changed situation. It illuminates a manufacturer's path to walk into the dark future without trembling legs.

In the past information was not collected systematically and scientifically. The inferences and solutions were therefore ill founded if not compeletely wrong. Marketing information to be fruitful must include all facts, estimates, opinions and other informations used in the marketing of goods. This necessitated a reorientation in the process which led to establishing Marketing Information System.

MARKETING INFORMATION SYSTEM

The system may be defined as a set of procedures and methods for the regular and planned analysis and presentation of information for use of marketing decisions. A good marketing inf[illegible]
system will help the management to plan control and un[illegible]
effects arising out of previous decisions. The importance of

ing Information System should be evident from the following diagram

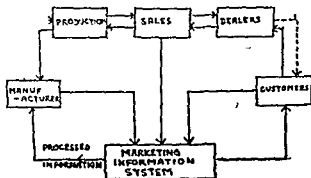


Fig 7 1 Marketing Information Systems

Without market information the chain of modern industry would be broken and the producers would be separated from the customer Marketing information and allied activities provide the missing link in this chain Mere market information would provide only a basis, but there should be a system to coordinate and reunite the producer and the customer It is all the more important since it narrows down the area of uncertainity and the risks attached to the marketing of products

KINDS OF MARKETING INFORMATION SYSTEM

Basically there are three kinds of systems which are adopted for this purpose

1 Marketing Control System It provides to the Sales manager information relating to the trends and problems in the market as also the marketing opportunities The data provided cover numerous aspects of sales and provide the management with a basis to assess its performance in the past Then this becomes a pointer for the future This system is useful for controlling the marketing costs and finding out reasons for poor sales

2 Marketing Planning System It furnishes information required for future planning of products in a most convenient and intelligible form It provides necessary materials even to decide alternative products in addition to the existing ones —The problems by this system are Sales forecasting promotional plann- credit management, etc

3 **Marketing Research System** This is useful for analysing and solving current marketing problems. It measures characteristics of different types of customers and also their behaviours under different conditions Marketing research handles problems concerning advertising, prices, etc

In short marketing information system is a set of procedures and methods for the regular, planned collection, analysis and presentation of information for use in making marketing decisions

METHODS OF COLLECTING MARKET INFORMATION

There are three sources from which market information can be collected These are

(a) The internal records of the business concern itself
(b) Published and unpublished information from external sources
(c) Original external research or Direct Market Research

7 2. How can the internal records of the business concern serve in defining the problems of

(a) Product analysis
(b) Territorial analysis
(c) Customer analysis

The financial records of a business concern are usually well kept and comparatively simple to analyse The balance sheet and other financial statements provide material proper analysis of which reveals the degree of efficiency with which the business is conducted If sales records are kept both in terms of value and volume and if figures of the volume of business in terms of number of items sold are also available, these reveal the position of the business

Analysis of the properly maintained records and statistics of a business concern is particularly important for measuring the effect of changes in the policy of the business concern For instance, a change in advertising or discount policy have its effect on sales which will be revealed by the analysis of internal records Thus with properly organised internal information it is possible to estimate the size of the market and the individual share market Effects of the seasonal factors and effects of in internal and external policies also may be revealed

ANALYSIS OF THE INTERNAL RECORDS

Analysis of the internal records, commonly known as 'Sales Analysis' may be helpful in locating and defining the exact problem This analysis may take three forms

(a) Product analysis,
(b) Territorial analysis and
(c) Customer analysis

(a) PRODUCT ANALYSIS

Usually business firms sell several product lines or at least varying sizes and types of the same line of product If the volumes of annual sales of each product or each type and size of product over past few years are tabulated and analysed it will show the percentages of the total volume of sales obtained from the sale of each line of product Thus records of sales of each type or size of product or each line of product can be compared For instance an analysis of the total sales volume of the concern shows an increase of 25 percent over the past year's records But when the sales volumes for individual product are analysed, it reveals that all the products are not selling at uniform rates also that some products have increased their sales volumes whereas one or two products have declined in their sales Without product wise sales analysis this fact might not have been revealed to the management of the concern Now that the problem has been revealed further investigation into the cause of the decline and its remedy can be planned

(b) TERRITORIAL ANALYSIS

Territorial analysis is used to ascertain the variation in the sales volumes in each territory district or region Usually the sales programme of a firm is based on the division of market into sales territories sales districts or sales regions A number of sales men are attached to each sales territory Therefore analysis of sales by territories districts and regions helps in measuring the sales volume in different geographical areas and also in keeping a check on the performance of salesmen If in any territory sales volume is less its causes can be investigated into and remedies found

Product analysis can be added to the territorial analysis method Thus study of sales of each product in each sales territory may be undertaken to determine in what geographic area

each product is relatively strong or weak Many firms eastablish sales quotas for each product in a territory and then compare actual sales with these quotas Thus the management of the firm comes to know what is happening in each territory Now it can find out the reasons for the performance of each territory and then take constructive action based upon the findings

(c) CUSTOMER ANALYSIS

Customer may be classified into groups, with all those included in any one group being similar regarding say, the amount of their annual purchases from the manufacturer Classification of customer may be based on their respective income or age or their social status Then the sales records of each customer s group may be compiled to find out the frequency of order, the amount of goods sold, the particular product lines purchased, the percentage of profit earned etc

Customer analysis method is best suited for the marketing of industrial goods because the number of buyers or customers is small Here sales records can be compiled for each customer Periodic examination of the sales records of each group of customers or each customer may reveal any important change such as a decrease in his overall purchases or in his purchases of a particular product. On this basis of this finding investigation into the causes of such a decline may be made Customer wise sales records may be analysed in regard to profitability—and more profitable customers may be attached greater importance in sales efforts

7.3 Critically examine the various methods employed for direct market research

It is true that much information about the market can not be obtained from an analysis of the internal records of the business concern or from external sources of information When all the reasonable sources of information from internal and external sources are exhausted and still certain valuable information about the market are lacking the sales manager turn to the method of direct market research

METHODS FOR DIRECT MARKET RESEARCH

There are three widely used methods of obtaining information through direct market research These are

(a) Survey Method

(b) Observation Method and

(c) Experimental Method

SURVEY METHODS

A survey is a complex operation which requires some technical knowledge Survey methods are mostly personal in character In making a survey various methods are adopted Depending on the information required there are atleast six major types of surveys

(a) **Factual Survey** Collects only facts

(b) **Information Survey** It is broader than the first one

(c) **Opinion Survey** Opinions on various problems collected.

(d) **Attitude Survey** Determines the attitudes of the consumers

(e) **Future Inventions Survey** Used to find out or discover future trends

(f) **The Reason Why Survey** Seeks to determine why a person has done something or intends to do something in future

One survey may combine several types since it may give several and better kinds of information The various kinds of surveys are carried through different methods Usually three general methods are used for conducting a survey

1 Personal Interview Survey,

2 Mail Survey and

3 Telephone Survey

1 Personal Interview Survey

In this method the enumerator makes personal contacts with the informants directly or indirectly with the help of mail or telephone Personal interview survey is done adopting any one of the following methods

(a) **Direct Personal Observation Method** The method implies that one who has to collect the data should personally study the problems and obtain first hand information

Merits Easy and intensive method
Reliable information
Surveys specific requirements
Avoids unnecessary details

Demerits Personal prejudices may destroy the authenticity of conclusions
Extensive use not possible
Time consuming and show process

(*b*) **Indirect Oral Investigation Method** Here also the enumerator makes a direct contact wi h the informants But the collection of data is made by making indirect inquiries This is adopted to ascertain the reality without harming the sentiments of the informants

Merits Useful for providing direct and positive answers
Creates personal intimacy between the collector and the giver

Demerits Invites incorrect answers
Time Consuming
Success depends on the skill of the enumerators

(*c*) **Direct Written Enquiry** Under this system, the enumerator prepares a list of questions and circulates it among the informants The questions are selected in such a manner that they could be easily answered The same questions are repeated to a number of persons or groups

Merits Simplicity
Lesser degree of inaccuracy
Easy comparison due to the same set of question

Demerits Personal bias or prejudices in selecting information influence results
Preparation of questionniare difficult

All the methods of collecting information discussed above are personal in character The person who requires the information directly meets the respondents and collects the information needed As a general method it has certain merits and demerits

Merits Makes planning easy
Greater control
Flexibility
More information
First hand information (information when passed through different hands may be distarted)

Demerits High cost
Skill and technical knowledge essential
Time consuming
Personal biases very often make the information one sided

Motivational Research This is another most useful analysis recently added to marketing research This research is designed to

discover underlying motives and desires of human behaviour under varied circumstances Of late motivation research is successfully applied to problems such as Product Design Package Design, Advertising and Pricing

Depth Interview This method allows the interviewer to explore the areas of information and to direct his conversation to certain topics only This method gives a free chance to the inter viewed even to express his opinions and attitude This method is capable of giving deeper insight into problems It uncovers new ideas and helps to explain things more quickly But such interviews are costly and call for a considerable knowledge on the part of the operators

2 Mail Survey

From the point of view of administration the mail survey is easier to handle In this method a questionnaire is sent alone with a letter explaining the purpose of the study A request is also made to send back the answered questionnaire to the sender It is the easiest method and hence quite popular If the customers are literate and are scattered this is the only method that could be easily adopted

Merits Cost is relatively less
Speedier than all other methods
Convenience to respondents
Simplicity

Demerits Poor response In most cases it rarely exceeds 30%
Limited use
Inflexibility—The questionnaire once prepared cannot be altered
Answers may not be received back in time
All questions may not be answered
Answers may not be proper and correct

To improve the percentage of response stamped and self addressed enveloped are sent Sometimes gifts are also provided as incentives

3 Telephone Interview

This method is widely used in developed countries like the United States However its use is restricted to telephone subscribers and therefore unsuitable for surveys covering wide area and customers from lower income groups

OBSERVATIONAL METHOD

There are many possible sources of inaccuracy in the survey method Some of these inaccuracies can be eliminated by using observation in place of interview or asking questions Under the observation method of market research information is obtained by observing some action of the respondent No interviews are involved For example a person may be observed buying coffee He is unaware that he is being observed therefore he will act in his usual way The observer stationed in the shop can watch and record the behaviour of the customer as he selects a particular brand of coffee

Observational method may be used in different ways Field worker may visit the homes of customers and instead of asking questions may actually check what brand or brands of products are in the home at the time of visit Customer may be observed personally by the observer while making purchases

Personal observation may take two forms

(a) The observer may pose as a customer in a retail store

(b) The observer may watch customer from a discreat distance and study the motivating factors leading to the purchases made by the customer

Information may be gathered by **mechanical observation** as well For instance hidden cameras kept in the shop may be used to observe and record the behaviour of customers in a shop Mechanical appliance such as electric card stretched across a road may be used to count the traffic in a shopping centre during a certain time period say from 5 to 8 P M

Merits and Demerits of Observational Method

Merits	Highly accurate and objective
	Actual market behaviours is recorded
Demerits	More expensive than Survey method
	More time consum ng
	Limited in its application
	It cannot go into the depths of motives beliefs and opinions
	It is insufficient to make a market decision

EXPERIMENTAL METHOD

The experimental method is best suited for chemical and other scientific research It can be more widely used in marketing research also

Experimental method of collecting market information—"involves the establishment of a scale model or a controlled experiment which stimulates the real market situation as much as possible This is based on the theory that the small scale experiment will furnish valuable information in designing a large scale marketing programme

A manufacturer may produce a few units of product and give them to some of the consumers to try them before he undertakes a large scale production of that product It is more widely used to test the various plans of sales promotion and different types of advertising It is also used for price determination, to test new products and packages The technique of experimental method in market testing adopts more or less the following pattern

A control markets established in which all marketing factors remain constant At the sametime one or more test markets are also established in which one or the other marketing factor is varied Now a firm wants to know whether to change the colour of the package being used by it It establishes town A as the control market in which the product is marketed in the package with the old colour It also establishes towns B, 'C and D as the test markets In these markets packages of different colours are used All other marketing factors such as price sales promotional compaign etc are kept constant in all the four markets Over a period of time sales of the product in all the four markets are observed On the basis of the observation it chooses colour of that market to be the best whose percentage of sales increase was the highest Another firm wants to introduce a new product For this purpose, it wants know whether the product will be purchased by the consumers and what amount of sales efforts such as advertising would be needed to sell a given quantity of the product to know all this it may first test its product in a few selected markets with the help of various sales efforts If the results of the tests as evident from the sales volume are favourable it may start a compaign for large scale marketing with the hope of same success

Meaits It is the only one of the three (servey, observation and experimental) methods which gives actual market tests and stimulates an actual market situation

Demerits - The method is expensive
It requires long, careful planning
It takes relatively long period of time to obtain the results

7 4 Write notes on the following

(A) Essentials of a Good Questionnaire,

(B) Mail Questionnaire,

(C) The Telephone Interview,

(D) Qualities of a Good Interviewer,

(E) Qualities of a Good Sample

(A) ESSENTIALS OF A GOOD QUESTIONNAIRE

A questionnaire is a carefully compiled logical sequence of questions directed to a definite objective It is the outline of what information is required and the frame work on which the data is built up Questionnaire is so commonly used in securing market information that its preparation deserves utmost skill and care Quality of a questionnaire will depend upon the questions listed in it. Each question should cover only one point It should be simple and clear It should ask for definite facts Leading questions should not be asked For example, instead of asking "Do your read the Statesman ? The question should be ' Which newspaper do you read daily ? '

Essentials of a Good Questionnaire

(*a*) It should be as simple as possible

(*b*) It should be easy for the respondents to give answer

(*c*) It should keep the interview to the point

(*d*) It should be arranged that sound analysis and interpretation of the facts gathered are possible

(*e*) Questions should be arranged in a logical or conversational sequence It should begin by asking about things which can be easily answered and then slowly proceed to the more complicated questions

(*f*) It should not be unduly long and time consuming for the respondent

(*g*) It should be easy for recording Space should be left for writing down answer to each question at the time of interview

(*h*) It should be easy for tabulation of the data after the forms are returned duly filled into the office

(B) MAIL QUESTIONNAIRE

A questionnaire is commonly used in securing market information Mail questionnaire is a servey method in which copies of the questionnaire are despatched to all the customers whose name appear on the mailing list A covering letter is attached with copy of questionnaire explaining the purpose of the study and soliciting cooperation of the addressee A prepared envelope is also enclosed.

This type of survey method has certain advantages

Advantages

1 It is cheaper to mail a questionnaire to an individual than to send some one to interview him personally
2 This method makes it easier to reach people in remote or in accessessible areas
3 Absence of an interviewer may lead to a more impartial reply free from any influence
4 Answers to questions which require reaction of the entire family can be more easily obtained
5 This method has a distinct advantage in case of survey covering a very wide area or highly selected group of individuals scattered over a wide area Travelling costs of personal interviews in such cases would be prohibitive
6 Quch speed with which the replies are received is an advantage of this method In an ideal case all the respon dents would complete their questionnaire at the same time and they would all be returned within a few a days
7 It is easy to reach a specific class of people—people who can not be interviewed personally are accessible through this method
8 It eliminates the ranger of the bias likely to be created by the interviewer
9 Anonimity—In postal enquiry the respondent remains awarymous It is not necessary to disclose his identity

Disadvantages

1 Lack of response
2 Difficulty in preparing representative mailing list
3 Length of the questionnaire
4 Ambiguous replies
5 Difficulty in classifying respondents

(C) THE TELEPHONE INTERVIEW

This method is widely used in a country like the U S A However, its use is strictly restricted to telephone subscribers and therefore is unsuitable for survey covering wide area and customers from lower income groups

Merits

1 Simplicity—This method is externely simple only a sample list of telephone numbers, a number of blank questionnaire forms and an interviewer with good manners and voice to talk on phone are needed to conduct the interview

2 Rapidity—Speed at which interview can be completed is a major advantage of this method

3 Low cost—It is less costly One interview on the telephone will cost only up to 50 paise per call

4 It help to interview people otherwise in accessible people not ready to grant personal interview do not mind a short conversation on telephone Thus even high officials and ladies from rich family can be interviewed easily

Demerits

1 List of telephone subscribers is not representative Middle class and poor people do not have telephone facilities

2 Not suitable for rural areas

3 Limited number of questions are possible in a short telephone call

4 Restructions on questions Personal questions of intimate nature can not be asked on phone

(D) QUALITIES OF A GOOD INTERVIEWER

An interview involves a meeting between two persons the interviewer and the respondent Interviewing any person requires knowledge maturity and skill Following qualities should be possessed by a good interviewer

1 Honesty and Dependability The interviewer has to work far from his employer s office, there is ample scope for dishonest and poor work He may fill in information not obtained during the interview It is absolutely necessary that he should be reliable and perfectly honest

2. Ability to meet People He should be ready and have the liking to meet and talk with people from all walks of life. He

should have the nerve, poise and tact to meet people in all moods and engage them in the interview

3 **Accuracy and Precision** It should always be remembered that an interviewer is a reporter of what he is told and what he observes Therefore, he must be able to convey facts and ideas as received Also he must be accurate in following instructions from his employe. Further he must be able to record facts precisely and must think precisely

4 **Good Physical Endurance** is necessary for an interviewer as a full day of active interviewing is an exhausting job

5 **Personality** An interviewer should have a fairly attrac tive personality and be an interesting person to talk with It should be remembered that the respondent is a stranger and is going to receive nothing in return for what interviewer wants him to do Therefore, the interviewer must be able to create a good impression at first sight and influence the respondent in such a way that he is ready to help

6 **A better than Average Education.** He should have some what higher than average education He should have atleast school leaving certificate though higher education should be preferable

7 **An enquiring mind good observation power and an extravert attitude.** He should have an attitude of mind which goes into the depth of the facts should be keenly observant and intensity interested in other people and their problems

8 **Strong Memory** An interviewer must possess a good memory to ensure the accuracy of his reports

9 **Commercial Knowledge** Knowledge and experience of the various facts of business in general and marketing in particular will be extremely useful for the interviewer to have a clear grasp of his job and what is demands of him

Success or failure, effectivity or otherwise of the personal interview method depend much upon the qualities of the inter viewer

(E) QUALITIES OF A GOOD SAMPLE

It is not always necessary to collect data from the whole universe A small representative sample may serve the purpose A sample means a small group taken from a large lot This small group should be miniative cross section and really 'representative in character This selection process is called sampling A good

marketing sample must have the following four attributes if it is to represent the universe faithfully

1 **It must be random** Random means that everyboy in the group has an equal chance to represent the group

2 **It must be representative** It means that the sample must include all important kinds of units in the total universe

3 **It must be proportional.** The sample selected should contain various segments in the same proportion in which they appear in the whole lot For example, if population of a country is 90 percent native and 10 percent foreign, the same proportion must be reflected in the sample also

4. **It must be adequate** The larger the sample the more nearly correct would be the result

Basically samples are of two types (i) Probability or Random Samples, and (ii) Non probability or Purposive Samples Probability samples are those samples which are selected in such a manner that every member of the universe has an equal chance of being included/excluded in it and in which the probable error that may creep in the studies or results is mathematically known in advance The word random does not mean 'haphazard It refers to an arranged and predetermined method of selection

Non probability or purposive samples are made to meet the specific requirement of a special nature

POINTS AT A GLANCE

1 **Meaning and Importance of Market Information.** Market information includes all facts, estimates opinions and other information used in making decisions which affect the marketing of goods Accurate information may help in sound sales forecast and to plan production policies

2 **Methods of Collecting Market Information (Sources)**
   - (i) Internal records of the business concern itself
   - (ii) Published and unpublished information from external sources
   - (iii) Original external research or Direct Market Research

3 **Analysis of the Internal records (Sales Analysis)—its forms**
   - (i) Product analysis,

(ii) Territorial analysis,

(iii) Customer analysis

4 **External Sources of Information.** Publications of various government departments Trade associations, chambers of commerce surveys and articles published in the professional journals

5 **Direct Market Research**

(i) Survey Method

(ii) Observation Method, and

(iii) Experimental Method

6 **Essentials of a Good Questionnaire**

(i) It should be as simple as possible

(ii) It should be easy for respondents to give answer

(iii) It should keep the interview to the point

(iv) It should be well arranged in a logical and conversation sequence

(v) It should not be unduly long

(vi) It should be easy for recording

(vii) It should be easy for tabulation

7 **Methods of asking question**

(i) The use of mail Questionnaire,

(ii) The telephone Interview

(iii) The Personal Interview

There are advantages and disadvantages of each of these methods

8 **Qualities of a Good Interviewer**

Honesty and dependability, Ability to meet people Accuracy and precision Personality Good education, Enquiring mind, Strong Memory

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8

Product Planning and Development

"It is an act of marking out and supervising the search, screening development and commercial sation of new products the modification of existing lines and the discontinuance of marginal or unprofitable items —Karl H Tietjen

The idea for new or modified products is secured from external sources like competitors, distribution channels and ultimate consumers Product ideas require preliminary screening and evaluation Market research helps in such fields Product planning is a major responsibility of the chief executive of the concern It is a team activity and the most important link in development of any product is the management

8 1 What is the meaning and importance of Product Planning and Development ? What marketing activities will you include under product planning and development ?

MEANING AND IMPORTANCE OF PRODUCT PLANNING AND DEVELOPMENT

Product is the starting point of all marketing activities unless the policies regarding the product are decided and exact nature of the product is determined not much can happen in marketing Determination of the shape or form in which a product is to be put in the market is an important part of the marketing process. A product is a combination of attributes These attributes are colour material design features, performance, utility value, functions and qualities etc Each of these attributes has to be determined if the product is to become the 'quick mover Thus Product Planning and Development is concerned with the determination of the precise nature of the product Product Planning may be defined as the 'act of making out and supervising the search screening

development and commercialisation of new products, the modification of existing lines and the discontinuance of marginal or unprofitable items Simply stated product planning decides the nature and other related aspects of the articles produced and sold.

The following are the usual functions undertaken by product planning

(i) Evaluation of the idea, market and the product.
(ii) Evaluation of company resources
(iii) Finding out customer specifications
(iv) Developing the product.
(v) Testing the product
(vi) Marketing the product
(vii) Evaluating the result

Product Development Product development is a more limited term but includes the technical activities of product research, engineering and design Product planning and development is the result of the coordinated efforts of a large number of specialists—engineers scientists accountants, marketing men, etc Product Planning is usually described as merchandising and includes the internal planning needed to get the right product in the market at the right time and at the right price and in the proper colours qualities, design and sizes etc In fact, merchandising function is the coordination of selling with production It emphasises on the size appearance, form quantities etc

MARKETING ACTIVITIES UNDER PRODUCT PLANNING AND DEVELOPMENT

(a) Setting up of standards.
(b) Determination of the variety of products to be produced
(c) Decision regarding quality of products
(d) Diversification and simplification of products
(e) Identification of the product or products by the use of a brand or trade mark
(f) Grading
(g) The design and use of a proper package.

SETTING UP OF STANDARDS

Fixing up of a standard requires careful planning Selection of wrong standards will end up in the premature death of the product. While fixing the standards the following physical properties of the product are considered

Basic weight and measures
Sizes, shapes or dimensions
Chemical or technical properties
Product performance
Quantity of units for sale or handling
Other characteristics apparent to human senses

Fixing a standard for a product is therefore, purely a technical function to be handled by the management with vision and foresight

DETERMINATION OF VARIETY OF PRODUCTS

The manufacturer has to decide whether he should produce to satisfy demands for all variety of products existing in the market or he should attempt to meet demands on a limited variety of products only Answer to these questions will determine the variety of sizes, of colours, of patterns which would be offered

DECISION REGARDING QUALITY OF PRODUCT

The next step in Product Planning and Development is whether to offer more than one quality of products Many manufacturers prefer to restrict their offer to a single quality This quality may be high quality meant for high income groups or of average quality or market quality designed to sell at a standard market price Alternatively product of less than average quality meant to sell at a price below the general market level with a view to cover the very low income group may be chosen. The choice of one or the other of the three qualities will depend upon market conditions, the objectives and resources of the concern

Trading up and Trading down In case of manufacturers offering single quality products problems of trading up and trading down are likely to arise Trading up means the introduction of a higher quality product or the market by the manufacturer of lower quality cheap product. It a manufacturer of cheap ball pens which has earned good reputation decides to offer higher quality ball pens depending upon the reputation of the cheaper pen, this is an example of trading up In this case the manufacturer expects that the trading up effect of the reputation of the cheap product will help him to sell the higher quality—higher price product. Similarly a manufacturer of high quality Watches and clocks may feel that he can sell lower quality watches because his higher quality wrist watches have good reputation in the market He expects that the reputation of high quality wrist watches will help him sell the lower

quality watches as it will have the 'trading down effect This is a case of 'trading down

DIVERSIFICATION AND SIMPLIFICATION OF PRODUCT LINE

In recent times sellers tend to favour the practice of diversification of their product lines Diversification of product lines refers to the practice followed by a seller to add new product to the line of products presently handled by lines

Reasons for Diversification

1 New technological development brings into existence new products For instance Asiad Games in India have made i necessary to introduce Colour T V This is baised to make manufacturers of black and white T V sets to add Colour T V sets to their product line
2 Successful firms like to deal in new products to create new market so that they can avoid or eliminate the inherent risk involved in the policy of narrow product line
3 To minimise the risks arising out of changes in fashions and consumer s tastes
4 To expand the activities of the firm to utilise the idle plant capacity and for fuller utilisation of the financial and manpower resources of the firm

Diversification can be achieved both by the merger of existing firms manufacturing different products and by adding to the manufacturer of existing product line by the same firm

Conditions for the success of the policy of diversification

(i) The new product to be added should be closely allied to the existing products
(ii) Continuous efforts should be made to eliminate from the product lines those products which become obsolete or unprofitable
(iii) Diversification is not advisible if it involves the use of new marketing methods and new marketing channels for the distribution of new products

Simplification of Product Line

Many sellers follow the practice of simplification of product lines Simplification of product lines is just opposite the practice of diversification It refers to the practice of limiting the number of products a seller deals in

Simplification of product line has the following advantages

(i) Less capital is tied up in inventories
(ii) Personnel have better opportunity for specialisation
(iii) Manufacturing and marketing activities can be more effectively directed

STANDARDISATION AND GRADING

The function of sorting out products into groups of uniform kind, quality and size is known as grading Standardisation signifies that a product is of a certain specified quality Standards are permanent and this factor is extended to grades Established standards are grades

Advantages of Standardisation and Grading

1 It helps to protect products in transit from damage and reduces the cost of marketing by achieving economy in freight and handling
2 Standardised goods require less storage area This reduces storage charges
3 Sale by description or sample is possible These eases the sale or purchase Commodity exchanges have become more useful with the introduction of grading
4 Comparisons of volues of different qualities of a product in a single market and the differences in prices in the same grade in different markets can be made easily Such comparisons help in keeping prices in different markets in line with each other
5 It helps to reduce risks and aids financing standardised goods could be evaluated accurately which facilitates financing
6 It helps to eliminate the element of speculation
7 Standardisation and grading enable the producers to use the brand names effectively
8 Advertising backed by standards is more effective It helps in the demand creation function also

Disadvantages of Standardisation and Grading

1 Standardisation destroys individual skill and ingenuity
2 In case of agricultural products the quality cannot always be maintained and grading becomes meaningless
3 It retards progress and introduction of new ideas
4 It affords an atmosphere where even the low quality goods are sold out under certain special standard or grades

5 It limits market and throttles down the foreign trade

PACKING

In the past it was neglected as a passive function and was merely intended for safety purposes alone Then its marketing values were *mostly* ignored Today it is accepted as an inevitable element in the marketing function.

Package, Packing and Packaging

Package is the container with or without contents inside Packing is the process of covering wrapping or creating goods into a package This is done for the purpose of delivering the articles to the consumer or for the purpose *of transport* Packaging may be defined as the general group of activities in product planning which involves designing and producing the container or a wrapper for a product The potentialities of packaging especially in the field of demand creation have been widely accepted now It is often remarked as a **'silent salesman'** This is *perfectly so* because of its advertising appeal identifying power and intrinsic value **Vernon L. Fladager** explains its importance 'under the modern marketing concept in which all aspects of a business are correlated from a market *point of* view to enhance their *ability to win profitabe* customers packaging decisions almost always have complex ramification Any such decisions may simultaneously affect production distribution research and development sales, advertising, public relations personnel, accounting and finance

Functions of Package

1 To assemble and arrange the contents in the desired form
2 To protect the contents from *production line through* final use
3 To identify the contents the brand, the maker
4 To provide a suitable product mix including sizes, weights prices grades and packages
5 To facilitate retailers functions
6 To facilitate transporting *storing* and ware house handling
7 To enable the display of contents
8 To encourage repurchase
9 To help in complying with legal *requirements*
10 To provide opportunity and space for advertising.

According to **Philip Kotler** Protection convenience and

economy are the three important traditional purposes attached to package '

(*a*) **It provides protection from various kinds of damage**—damage by mechanical handling product loss, pilferage contamination by dirt or dust

Moisture gain or loss (cement)

Chemical change (metal corrosion)

Insect attack (mottn)

(*b*) **Cenvenience**—Storage convenience, convenience in use

(*c*) **Economy**—Loss in quantity is prevented, opportunities for reuse creates an opportunity to communicate with the customers

Kinds of Packaging,

Kinds or methods of packaging will depend largely on the nature of the contents in terms of their value, physical composition and durability The length of the distribution channel, the amount of handling and variations in climatic conditions Products in liquid form, require containers made of galss or similar materials For fragile articles wooden containers are used

1 **Family Packaging** Products of a particular manufacturer when packed in an identical way is known as family packaging The shape, colour, size etc of packaging will be similar for all his products

2 **Re use Packaging** Packages that could be used for some other purposes after the packed goods have been consumed is known as re use packing This aspect increases the sales value of the product considerably

3 **Multiple Packing** It is the practice of packing several units in one container This helps to introduce new products and increase the sales

Kinds of Materials used for Packaging

1 **Earthen Wares.** Earthen ware for preserving products of liquid nature

2 **Chine Jars** These are used where protection is required against light and corrosive action

3 **Wooden Boxes** They prevent breakage due to rough handling

4 **Cardboard Container** Corrugated paper boxes are commonly used in speciality goods which are not bulky

5 **Straw Baskets**—These are meant for keeping vegetables, fruits

6 **Gunny Bags** These are used for packing grains of all kinds.

7 **Glass Bottles** Bottles of different sizes and forms used for liquids and medicines

8. **Tin Containers** These can be used for packing any kind of material

9 **Plastic Container** Most popular due to their low cost. good appearance convenience and ability for reuse

8.2 What are labelling and branding ? State the functions, advantages of labelling and branding of products

LABELLING

Label is a small slip placed on or near product to denote its nature, contents, ownership, destination etc The function of standardisation is made perfect and known to the users through labels. Packages afford a place where the labels could be affixed It is a part of the product which carries a verbal information about the product or the seller A label plays an important role in making the packaging and branning functions meaningful

Functions of Labelling

1 It gives definiteness to the product and therefore the identification of a product is easy
2 It stresses the standard and other special features of the product which are advertised
3 It enables the manufacturer to give clear instructions to the consumer about the proper use of his product
4 By mentioning prices undue price variations caused by the intermediaries are avoided In other words prices recorded registered and maintained
5 It encourages to produce only standardised and quality products
6 It provides method for the manufacturer by which a contact with the customer is established

Kinds of Labels

William J Stanten classifies the labels into four classes

(i) Brand
(ii) Grade

(iii) Descriptive, and

(iv) Informative

(i) **Brand Labels** These labels are exclusively meant for popularising the brand name of the product Cosmetics manufacturers prefer to use this kind of labels

(ii) **Grade Labels** These labels give emphasis to standards or grades This is used an indirect method of product identification *eg*, cloth, leaf tea, dust tea, etc

(iii) **Descriptive Labels** They are most illustrative in nature In addition to the product features they explain the various uses of the product Household products have invariably have descriptive labels

(iv) **Informative Labels** The main object of these labels is to provide maximum possible information These may contain the product characteristics and in addition the method of using it In the case of medicines detailed labels are attached

Advantages of Labelling

1 It is a social service to customers who very often do not know any thing about the products characteristic features
2 It avoids price variations by publishing the prices on the label
3 It helps advertising activity of the organisation
4 It helps the customers to assess the superiority of a product
5 It is a guarantee for the standard of the product
6 It raises the prestige of the product and the manufacturer

Disadvantages of Labelling

1 For and illitera e population labelling is of no use
2 It increases the cost of the product, since labelling involves expenditure on the part of the manufacturer
3 Labelling is effective only where standardisation is compulsory
4 It enables the customer to weigh and compare the advantages of products before they are used This may ultimatly and in discarding of a product in favour of the other

Inspite of these disadvantages of labelling under legalised atmosphere it could play an effective role and provide protection to consumers.

BRANDING

Products are the children of manufacturers Once a manufacturer has decided to introduce a new product, he will want to give his product an identity, a BRAND NAME Brand is a name, term, symbol or design or a combination of them which is intended to identifv the goods or services of one seller and to differentiate them from those of competitors—**(American Marketing Association—Marketing Definition)**, *e g* , Hamam Soap, Moti Soap

Brand Name A brand name consists of words, letters and/or numbers which may be vocalised or pronounced, *e g* , Usha Fans, Allwyn Refrigerators Gillete blade They are a combination of words used to identify a product and to differentiate it from other products

Brand Mark. A mark is the part of the brand which appears in the form of a symbol design or distructive colouring or lettering (W J Santen) It could be recognised only by sight but may not be pronounced *e g* the symbol of 'Maharaja of Air India, the picture of 'Gapuram of Tamil Nadu Tourist Dev Corporation

All these forms brand name brand mark are called branding a product meant for identification and differentiation from other products

Trade Mark When a brand name or brand mark is registered and legalised it becomes a trade mark The registered brands are Trade Marks Trade Mark is defined as a brand or part of a brand that is given legal protection because it if capable of exclusive appropriation Trade mark is essentially a legal term protecting the manufacturer s rights to use the brand name and/or brand mark

Trade Name This term is erroneously used as a synonym for either 'Brand Name or Trade Mark A trade name is the name of business preferably the name of the organisation itself A trade name may also be a brand name but in such a case it serves two separate purposes It brings out the identity of the manufacturer and the product Totas is a trade name Godrej is both a trade name and a brand name

Patents Patents are public documents conferring certain rights previlages titles or offices A patent confers the right to the use of a technical invention It is applicable in the case of a new inventions new products new machine, etc Defined more precisely a patent confers the right to secure the enforcement power of the

state in excluding unauthorised persons, for a specific number of years, for making commercial use of a clearly identified, new and useful technological invention

Copy Right This is applicable in case of books and is used in the same meaning as that of patents It is a sole right to reproduce, literary, dramatic, musical or artistic work. Copy right is available for the whole of the author's life time and fifty years after his death

FUNCTIONS OF BRANDING

1 It helps in product identification and gives distructiveness to the product.
2 Indirectly it denotes the quality or standard of a product.
3 It eliminates imitation products
4 It ensures legal right on the products
5 It helps in advertising and packaging activities
6 It helps to create and sustain brand loyalty to particular products
7 It helps in price differentiation of products

Identity is essential to comptition, because without a means of identification there is no way of making a choice Brand names definitely facilitate in making a choice A large number of products even today live in the markets mainly due to an effective use of brand name—Usha Fans Dettol, etc

Brand Image and Product Image Every brand image is partially derived from a product image The product image relates to the fundamental aims and satisfactions which the consumers find in a particular product

KINDS OF BRANDS

Thomas F Schutte classifies the brands into two broad categories

1 **Manufacturer's Brands**

(a) National Brands—The same brand used on a national level

(b) Regional Brand—Brands for particular region.

(c) Advertising Brands—Brand stressing symbols.

(d) Blanket Brands or Single Brands or Family Brands—One brand name for all the products of a manufacturer, *e g*, Godrej products

(e) Multiple Brands or Individual Brands—Brand name given for each variety of product, e g , various Brand Soaps of Totas

2 Distributor's Brands

(a) Private Brand
(b) Store Brand
(c) Dealer Brand
(d) House Brand

ADVANTAGES OF BRAND NAMES

To the Manufacturers

(i) It protects the interests of the manufacturer
(ii) It saves advertising cost of the brand name is popular
(iii) If properly promoted, brand name creates confidence in and good will for the products
(iv) It widends market for the products

To the Consumers

(i) It affords an easy way for purchase by easily identifying a product
(ii) The brand name indirectly assures certain quality by identifying the manufacturer behind the product.
(iii) The brand names assure fixed prices Even the distributors cannot unjustifiably vary prices

To the Distributors

(i) Widely popular brands ease the selling process and lead to larger sales
(ii) It helps in advertising and sales promotion programmes
(iii) The distributor can easily find out the quick moving products
(iv) Branding reduces price flexibility This in turn reduces the risk in business
(v) Special selling efforts need not be undertaken This reduces the cost of distribution and hence the final price

ARGUMENTS AGAINST BRANDING

(i) It leads to some kind of monopoly known as BRAND MONOPOLY
(ii) It is difficult to establish a brand and the expense in the initial stage is very high which raises the cost.

(iii) Brand names do not always asure good quality Glamorous brand names sometimes exploit the innocent consumers

Characteristics of a Good Brand Name Brand names reflect certain aspects of the products or the manufacturer The brand names are coined name (Parker) Arbitrary name, Suggestive name, Descriptive name Characteristics of a good brand name are Easy to read and understand, appropriate easy to remember and descriptive

POINTS AT A GLANCE

1 **Marketing Activities under Product Planning and Development**

(i) Determination of the variety of products to be produced

(ii) Decision regarding quality of product

(iii) Diversification and simplification of products

(iv) Identification of the product by the use of a brand or mark

(v) Grading

(vi) The design and use of a proper package

2. **Reasons for Diversification**

(i) New technological developments

(ii) To eliminate the inherent risk involved in the policy of narrow product line

( ) To minimise the risks arising out of changes in fashions and consumers tastes

(iv) To expand the activities of the firm

(v) To utilise the idle plant capacity and for fuller utilisation of the financial and manpower resources of the firm

3. **Brand and Trade Mark Differentiated**

Trade mark is a brand that is given legal protection All trade marks are brands but all brands are not trade marks Brand is any name, symbol term or design which is intended to identify the goods of one seller and to differentiate them from those of others

4 **Importance of Branding**

1 The growth of competition has made branding necessary

2 Increasing importance of advertising
3 Significance of packing
4 The growing habit among consumers to buy goods of particular brands

5. Essentials of Good Brand

(i) It should be simple, short and easy to memorise
(ii) It should be easy to recognise and recall
(iii) Distinctive acd attractive
(iv) It should be easy and economical to reproduce
(v) Not based on prevailing styles and fashions
(vi) It should be effectively illustrative
(vii) Its owner should be able to protect it in the law court.

6 Classes of Brands

(i) National and private brands
(ii) Manufacturer s brands and Retailer's brands.
(iii) Producer s brands and Distributor s brands
(iv) Single or blanket brands or Multiple brands

7 Advantages of Branding and Trade Mark

(a) Advantages to Manufacturers

(i) It makes distribution of the product in the wide market possible
(ii) Individuality of the product is well established
(iii) Advertising costs are reduced
(iv) Wholesalers and retailers prefer branded products
(v) After sometime the producer is in a position to dispense with the services of the wholesaler and reduce his expenses in distribution
(vi) Helps in controlling the price of the product
(vii) The manufacturer is required to pay lower rate of commission to wholesalers or retailers on the branded products
(viii) Branding aids to main contact with the consumers
(ix) It ensures steadier demand leading to economies of planned and continuous production

(b) Advantages to Wholesalers and Retailers

(i) It helps in advertising and display programmes
(ii) It helps in increasing control and share of the market
(iii) It reduces price comparisons and help stabilise prices
(iv) It facilitates introduction of a new item

(*v*) Branding aids in standardisation of quality
(*vi*) Retailer is assured of more or less stable demand
(*vii*) Branded items require less time to be sold
(*viii*) Less risk is involved in the case of branded products
(*ix*) No efforts for promoting sale are necessary

(*c*) **Advantages to Consumers**

(*i*) They cannot be charged higher prices by the retailers.
(*ii*) Consumers are assured of good quality
(*iii*) Quality goods are easily available
(*iv*) Quality of branded goods is protected
(*v*) Stability in prices

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9

Channels of Distribution

Marketing channels are the routes taken by the title to the product in its journey from the manufacturer to the ultimate consumer

The channel of distribution is a tool of marketing used to explain and understand the methods by which products are able to reach the final consumer Channels of distribution maintain an efficient flow of supply of goods at all times. Channels of distribution vary according to the needs and circumstances of the market Distribution of different products is made in several ways and in its course, apart from persons who are actually called salesmen, many persons of different designations effect sales and often in large amounts In this chapter the various channels of distribution and the factors that influence decisions on selection of channels will be discussed

9 1 What is a Channel of Distribution ? What are the primary purposes of distribution ?

MEANING OF CHANNELS OF DISTRIBUTION

Channels of distribution are the means employed by manufacturers and sellers to get their products to the market and into the hands of users Channels are management tools used to move goods from production to consumption They are means by which title to goods is transferred from sellers to buyers. This process of transferring title is not so simple especially in the present day markets that are characterised by hetrogeneity on both the supply and demand sides There is a wide variety of goods produced for sale on the other side there are highly varied and complex desires of consumers

According to A.W Shaw distribution is the application of motion to materials as they move from the times places forms and conditions where they have no value to the times, places, forms

and conditions where they have value' The channel is, therefore, the vehicle for viewing marketing organisation in its external aspects and for bridging the physical and non physical gaps which exist in moving goods from producers to consumers through the exchange process, including the determination of price

Marketing creates various utilities to the products. Most of these utilities are in fact created by performing the function of physical distribution promptly and efficiently Channels of distribution help to move goods from one place to another hence they add place utility They bring goods to the consumer when the consumer wants them Hence they add time utility also They bring goods to the consumer in a convenient shape, unit, size, style and package hence they add convenience value They make it possible for the consumer to obtain goods at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership, hence they add possession value

There is a wrong impression that the one and only function of the channel of distribution is to make the seller and buyer meet. The term is defined as "the structure intra company organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed"—(A.M.A.) This definition includes two aspects

(a) The firms internal marketing organisation units and the outside business units which a firm uses in its marketing work

(b) The channel structure of the individual firm and the entire complex available to all firms.

In any developing economy there is an increasing emphasis on specialisation and the division of labour As a result of this a gap gets developed between producers and users The primary purpose of the distributive channel is to bridge this gap by resolving geographical distance and temporal (relating to time) discrepancies in supply and demand For this irrespective of the extent of these discrepancies certain essential functions meet to be performed.

ESSENTIAL FUNCTIONS OF DISTRIBUTION CHANNELS

1 Transfer of title to the goods involved
2 Physical movement from the point of production to the point of consumption
3 Storage functions

(b) **Merchandising** Producing goods that will satisfy market requirement

(c) **Pricing** Attaching value to the product

(d) **Physical Distribution** Distribution activities

(e) **Termination** Settlement of contract

5 Middlemen collect huge orders and purchase products in bulk from the producers This enables a producer to undertake large scale production

6 The middlemen provides a connecting link between the producers and their respective markets

7 They help to stabilise the prices

8 The middlemen create place time and possession utilities to the goods

9 3 'Middlemen are parasites They should be eliminated' Do you agree with this view ?

In essence the channels of distribution are tools hired to perform the function of transfering goods from the place of production to the place of consumption The various functions involved in this process are not performed free of cost but are charged for It is therefore natives that the cost of hire should be paid by those who benefit from the service, *viz.*, the ultimate consumers It is here that severe criticism is levelled that the charges made by the middlemen are more than what is due to them Therefore, many persons advocate the elimination of middlemen who, according to them, are responsible for the rising costs of distribution However, one thing should be clearly borne in mind that elimination does, not mean eliminating the functions performed by middlemen because the critics often confuse the functions with the performed These marketing functions have definitely to be performed by someone Functions performed by distribution channels must be performed if the goods are to be made available in the markets The desired objective is to perform the marketing services—services of transfer, storage, handling and transportation etc at the lowest possible cost with the greatest efficiency in order to serve the consumers best. Thus the elimination of middlemen does not mean elimination of marketing functions at all

CRITICISM OF MIDDLEMEN

1 The middlemen render some disservice to the society They prevent the coming together of the producers and customers

2 They create a wide between the producers and the customers leading to complete unawareness of realities in the market

3 They manipulate things in a way that the producers are not able to conform production to demand which results either in over production or under production

4 They maintain their existance at the cost of the consumers in general "The middlemen are nothing but parasites thriving at the expense of the consumers who are gradually being robbed of a considerable amount of their purchasing power to feed the middle men"

5 They use clever method of cornering products and dictating prices.

On account of these powerful arguments in favour of the elimination of middlemen the tendency in production now a days is to do away with middlemen and bring the producers and consumers indirect touch with benefits to both There is a growing feeling among the manufacturers also for the discontinuation of middlemen on account of the following reasons

1 Wholesalers do not take interest in increasing sales volume inspite of large incentive given to them This is especially so when a substitute product is appearing in the market
2 Most of the middlemen do not actually perform the marketing functions such as storing, transportation, etc They simply help in changing the ownership without shouldering any responsibility
3 The present manufacturer is desirous of establishing closer contacts with the consumers Most of the manufacturers have now started opening their own retail shops Delhi Cloth Mills Lakshmi Mills Madurai Mills have their own retail shops In the same way Bata and Carona have their own retail stores. In all these cases the functions of marketing are performed by the manufacturers But every manufacturer is not in a position to undertake these functions because of the financial problems in managing the distribution activities Hence inspite of the disservices and manipulations middlemen continue to exist today in the channels of distribution

9 4 Discuss the important channels of distribution. What are the factors which determine the choice of channels ?

The selection of the channels of distribution depends on the requirements of the market and the nature of consumer wants The manufacturer entering a market must determine what he himself wants what share of the market he wishes to attain, and how much he is willing or able to invest in order to attain it He must also make it some how best he can reach the market in order to attain his share There are no readily available any set guidelines which could state what the best channels are In each instance, therefore, the seller has to consider his own objectives, resources and of course the channels which are available to him

FACTORS DETERMINING THE CHOICE OF CHANNELS

The individual manufacturer or seller making a choice of how he will get his goods most economi ally and efficiently into the hands of potential customers has to consider several specific factors. Some of such factors are

(i) The type size and nature of customer s demand
(ii) The nature of company s business
(iii) The type of product sold
(iv) The price of the unit of sale
(v) The price margins and mark ups necessary to induce distributors to handle the goods
(vi) The extent of the seller s product line

IMPORTANT CHANNELS OF DISTRIBUTION

The ability of the manufacturer to compete successfully depends on his ability to find out the most economical form of distribution and to develop continued profit. In general there are two primary choices available to a manufacturer desirous of getting his goods form the factory to the consumer

(a) He may entrust the selling job to someone else like selling agents These are independent businessmen who operate on a commission basis and whose principal function is to sell the entire output without taking the ownership They may render this service to a limited number of manufacturers only They operate as sales agent for a manufacturer, generally for commission ranging from

5 to 10 per cent on sales They could also be termed as FUNCTIONAL MIDDLEMEN

(*b*) He may choose one of the available trade channels and thus participate to a greater or less extent in the distribution process If he chooses to use a channel he has a choice of four channels

1 Distribution through an Agency
2. Selling to wholesalers who sell to retailers
3 Selling direct to retailers or dealers.
4 Selling direct to customers

1 Distribution through an Agency In this channel there are the brokers, the manufacturer s agents, the commission merchants and the export merchants Usually the manufacturer uses this channel when he can not afford to invest the amount requised to develop a sales force of his own

2. Selling to wholesalers who sell to Retailers This is the traditional channel The wholesaler is the person who buys in large quantity and sells in smaller quantities to a large number of retail buyers The real wholesaler is always a merchant middlemen He naturally tries to sell for more than he pays The difference is called the margin mark up or gross profit From the point of view of the manufacturer an over dependence upon the wholesaler causes him to lose contact with retail dealers Further more the wholesaler may have various products of different manufacturers to sell and hence, might be unable to push up the sales

3 Selling Direct to Retailers or Dealers This is a short trade channel where the manufacturer simultaneously assumes the functions of the brokers and the wholesalers He himself finds out the bulk buyers This channel had its origin in the idea of eliminating wholesalers from the channel of distribution This channel is viable only when

(*a*) The manufacturer has financial resources to take up marketing functions
(*b*) There is large scale production
(*c*) The product is normally bought by the customers in large quantities
(*d*) There is full line of goods
(*e*) The demand for the goods is constant

4 Selling Direct to Customers This method is most common in industrial marketing where capital goods are marketed

Industrial chemicals machinery, installations, heavy equipments are *generally 'Sold on a direct basis D rect sale is also undertaken in* the case of agricultural commodities especially in the case of small production In the case of other consumer goods direct selling *constitutes a very small part of total retail selling*

POLICY OF THE FIRM REGARDING DISTRIBUTION

Before selecting a particular type of intermidiary one has to consider the policy regarding the distribution General consideration for choosing a channel are nature of the product characteristics *of the individual buyer, buying habits, competition, etc.* But all these factors are not static and are sometimes dangerously dynamic A manufacturer must, therefore, review his channel policies and make sure that they are the best in his situation Thus the marketing policy can never be permanent. The ultimate test of a policy must be the effectiveness and economy of serving the customer. The distribution methods usually adopted are grouped under five methods

1 Intensive Distribution
2 Selective Distribution
3 Exclusive Distribution
4 Consignment Selling
5 Franchise Selling

1 Intensive Distribution It is a policy where a manufacturer seeks to use as many outlets as possible in as many places as possible This method is referred to as 'maximum expansion *Intensive distribution methods are generally adopted in the case of* convenience goods

2 Selective Distribution. Under this method the manufac*turer selects a limited number of wholesale or retail distributors* and works closely with them to further the sale of his products Th s requires considerable planning and thorough knowledge of the market There are certain distributive advantages of this method The manufacturer can pick the best outlet he wants which enables him to leave the unimportant and unprofitable channels It is best suited in the case of shopping goods which carry a higher unit price Goods which require aftersale service are often sold through selective distribution outlets

3 Exclusive Distribution This refers to the practice of selecting and giving a distributor an exclusive are of sales called

Territory The manufacturer enters into an exclusive selling agreement that he will not sell to any one else in that territory The distributor also agrees not to handle or deal in any competing product It gives some sort of prestige to the product as having an exclusive dealer If any price reduction is required, the distributor will be protected by the manufacturer in preserving a distributor s profit margin

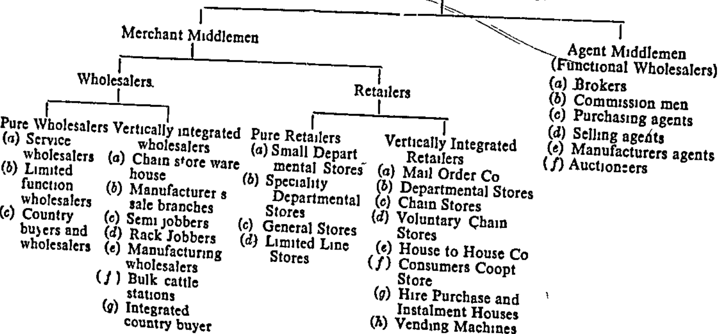
4 **Consignment Selling** It is the practice of placing goods in the hands of middlemen with the title and control remaining in the hands of the seller The distributors are thus neither wholesalers nor retailers but occupy only the position of agents They usually get a commission on the sales effected together with charges incurred thereon The manufacturer specifies the manner, time and price of sale The advantages of this method are many The distributors run no risk of buying and being stuck with goods They need not invest any money

5 **Franchise Selling** In this method a manufacturer arranges distribution with some individual outlets providing the required machinery for selling This method is necessary when the owners of outlets lack capital and knowledge of marketing the products The parent company provides loans, design for buildings training for both the owner and his staff and helps in advertising and promoting the business For example there are various weighing machines fixed at bus stands railway platforms and cinema houses These machines are hired out by the manufacturer but are to be operated by individual retailers

9.5 What are the services rendered by
(a) Wholesalers
(b) Retailers

WHOLESALERS

Wholesalers occupy a predominant position in the channels of distribution They assemble merchandise from many sources, warehouse it and regroup the goods for convenient buying by the retailers Most modern wholesale merchants provide information and advisory services to retailers and they are often in a position to provide local market information to manufacturers as well. Their most important service is of making it possible for the manufacturer to sell to thousands of smaller retailers to whom the merchandise can not be sold direct from the factory. This is more so because of their lack of sources and storage space to purchase in large


CLASSIFICATION OF MIDDLEMEN
Merchant Middlemen
Agent Middlemen (Functional Wholesalers)
(a) Brokers
(b) Commission men
(c) Purchasing agents
(d) Selling agents
(e) Manufacturers agents
(f) Auctioneers
Wholesalers
Retailers
Pure Wholesalers
(a) Service wholesalers
(b) Limited function wholesalers
(c) Country buyers and wholesalers
Vertically integrated wholesalers
(a) Chain store ware house
(b) Manufacturer s sale branches
(c) Semi jobbers
(d) Rack Jobbers
(e) Manufacturing wholesalers
(f) Bulk cattle stations
(g) Integrated country buyer
Pure Retailers
(a) Small Depart mental Stores
(b) Speciality Departmental Stores
(c) General Stores
(d) Limited Line Stores
Vertically Integrated Retailers
(a) Mail Order Co
(b) Departmental Stores
(c) Chain Stores
(d) Voluntary Chain Stores
(e) House to House Co
(f) Consumers Coopt Store
(g) Hire Purchase and Instalment Houses
(h) Vending Machines

quantities to make such direct purchase economically feasible. On the basis of functions they perform wholesalers could be grouped as follows

1 Limited Function Wholesalers
   (a) Wagon or Truck Jobbers,
   (b) Rack Jobbers,
   (c) Cash and Carry Jobbers,
   (d) Mail Order Wholesalers
2 General Merchandise Wholesaler
3 General Line Wholesalers
4 Speciality Wholesalers.
5 Functional Wholesalers/Middlemen.
   (a) Brokers,
   (b) Drop Shipment Wholesalers,
   (c) Commission Merchants,
   (d) Manufacturers Agents,
   (e) Selling Agents.

SERVICES RENDERED BY WHOLESALERS

Services to the Manufacturers

1 The wholesalers provide perpetual and definite consumers to the manufacturers They either purchase large quantities from the manufacturers and sell them to the retailers or collect small orders from a number of retailers and place a bulk order with the manufacturers The manufacturers are thus relieved of the trouble and expense of collecting a large number of small orders
2. He collects and provides the information required for planning the production ahead
3 He maintains stocks and thus assures equitable distribution.
4 He places bulk orders with the manufacturer and thus enables him to concentrate on production and reap the benefits of large scale production
5 He shoulders the marketing functions

Services to the Retailers

1 Because of services of wholesalers' the retailers need not stock goods in unduly large productions
2. The wholesaler s activities help to maintain the price

element which goes a long way to enable the retailers to retain their customers

3 The credit provided by the wholsalers is an attractive and helpful activitiy from the view point of retailers

4 The wholesaler keeps the retailer informed of the new types of products that are introduced in the market. This gives the retailers an opportunity to expand his business

5 The wholesaler bears the risk involved in the marketing procedure

Services to the Society

1 The specialisation in the marketing activity enables wholesalers to provide marketing services to the consuming public at a lower cost

2 It is wholesalers who introduce fashion and new changes in the market This helps to improve the standard of living of the people

Though the wholesalers are helpful in many ways a feeling has developed against their existance The elimination of middle men in fact, is an argument against the elimination of wholesalers

POSITION OF THE WHOLESALERS IN MODERN MARKETING

Inspite of gloomy forebadings, the wholesaler still manages to hold his position because of the very real services he renders. But there is no doubt that as compared with one a hundred years ago his position is less important as a member of the business fraternity The causes responsible for his decline are as follows

1 Growing displeasure of this system of channel in all quarters

2 *Growth of large retail stores as chain stores* departmental stores, super market, etc

3 Manufacturer s desire to establish direct contacts with the customers

4 Development of transport and communication systems

5 Frequent and unexpected changes in style and fashion

6 Emergence of new and bigger markets

7 Growth of consumer s cooperatives in almost all fields.

RETAILERS

The word retailer is of French, origin meaning 'to cut again It is exactly so as the retail trade is one that cuts off smaller portions from large lump of goods The retailer is the last link in the chain of distribution and the ultimate consumer Without retail stores to make the goods of industry conveniently available to millions of consumers there could be no mass production The industrial revolution never would have taken place in the absence of retailers The retail shop in one of the oldest and most widely used business establishments in the country

A retailer is a business enterprise which sells primarily to ultimate consumers The Retailer is also know as a 'dealer The distributor is a wholesaling middlemen and not at all a retalller Retailing includes all activities directly related to the sale of goods or services to the ultimate consumer If a manufacturer sells direct to the consumer that also is retailing. Any one selling to the ultimate consumer is performing the functions of a retailer regardless of what he calls himself

Retailing Functions

1 The physical movement and storage of goods
2 The transfer of title to goods
3 The provision of information concerning the nature and use of goods
4 The standardisation, grading and final processing of goods
5 The provision of ready availability
6 The assumption of risk concerning the precise nature and extent of demand
7 The financing of inventory and the extension of credit to consumers

SERVICES RENDERED BY THE RETAILERS

1 The retailer keep stocks of different varieties of goods An average consumer can not afford to stock goods that he requires for every day use
2 Most of the demand creation methods are undertaken by retailers for the manufacturers and wholesalers They arrange for the display of goods and supply necessary information to the customers
3 The retailer is an expert in the distribution of consumerl goo ds Out of their experience training and intimae

RETAIL AGENCIES

Over the basis of Permanent Place of business

Itinerant Retailers
(a) Howkers and Pedlars
(b) Market Traders
(c) Cheap Jacks
(d) Street Traders

Fixed Shop Retailers
(a) Street Stall holders
(b) Second hand goods dealers
(c) Speciality shops
(d) General shops

On the basis of size

Small Scale
(a) Independent Stores
(b) Vending Machines
(c) Discount Houses
(d) Syndicate Stores

Large Scale
(a) Departmental Stores
(b) Chain or Multiple Shops
(c) Mail order
(d) Hire Purchase and Instalment
(e) Cooperatives
(f) Super Markets
(g) Hyper Markets

knowledge of the goods the retailers are in the position to help the customers in the proper selection of gooos

4 The retailer often extends credit facilities to the consumers This accounts for larger sales volume

5 The retailer provides many personal services to the customer such as home delivery, aftersales service, etc

6 For the manufacturer the retailer collects information about trends in marketing, changes in fashions etc It is through the retailer that a customer meets the manufacturer

DEPARTMENTAL STORES

Differences between the Departmental Stores and Multiple Shops

1 A departmental store keep a wide variety of goods under one building A multiple shop specialises in only one type of goods

2 A departmental store is centrally located to attrack customers while multiple shops are located at various cities to reach the customers.

3 Departmental store deals in luxuries etc So such people can afford to go there for purchases Multiple shops deal mainly in necessities and cater for the general public

4 Prices at departmental stores are comparatively higher while all multiple shops charge unform prices

5 Departmental stores sell both on cash and credit basis Multiple shops sell only on cash basis

6 Control of a departmental store is easier as all the depart ments are located in a single building But the control of multiple shops is comparatively difficult as shops are located throughout the country

7 Departmental stores make local publicity while mlutiple shops make publicity on a national scale The shops maintain uniformity in decoration and window dressing etc

8 All the activities of a departmental store are divided into five major sections or divisions to facilitate smooth working

(i) Merchandise Section,
(ii) Sales Section
(iii) Service Section
(iv) Establishment Section, and
(v) According and Finance Section

Both the departmental stores and multiple shops have their own advantages and disadvantages

Advantages of Departmental Store

Provide all facilities under one roof, central location attracts large number of customers large variety of goods are stores, financial strength enables it to have experts in all sections centralised buying helps it to get merchandise at lower cost

Limitations of Departmental Store

Operating cost is generally very high there are problems of finding out a suitable location, certain departments have to be retained inspite of their securring losses

CHAIN STORES OR MULTIPLE SHOPS

Advantages

(*i*) Lower selling prices
(*ii*) Economy in advertising as common advertisements covering all the units are feasible
(*iii*) Ability to spread risks The principle followed is not to lay all the eggs in one basket
(*iv*) Flexibility in working
(*v*) Bad debts and detailed accounting avoided
(*vi*) Central and costly locations are not essential

Disadvantages

(*i*) Lower price is a false claim
(*ii*) Inflexible in practice
(*iii*) Personnel problems—transfers and promotions present problems
(*iv*) Poor Public Image—credit facility door delivery etc are completely absent

9 6 Which distribution channels would you recommend for

(*a*) Consumer Products
(*b*) Agaricultural Products,
(*c*) Industrial Products

CHANNELS SELECTION

Channel decisions are not permanent and require constant evaluation. Improvements changes and abolition of channels altogether might become necessary in the course of time On the basis of the nature of products also these channels may take

different forms A common or general approach is neither feasible nor practicable A few practical hints on channel selection are as follows

1 In cases where a manufacturer s products are frequently purchased the best course for him would be to adopt direct distribution through a hired salesman

2 Fashionable and perishable commodities must be placed in the hands of final sellers as quickly as possible Speciality departmental stores are the best channels in their case

3 In the case of goods which require technical knowledge or skill for sales maintenance and repairs etc the channel must be selective in nature, middlemen also be could used provided they could offer their services efficiently

4 Goods with high unit cost are sold more directly and selectively as also the bulky ones For brandable products multiple shops would be the best channel

5 Convenience goods may be distributed through intensive channels

6 Shopping goods of high unit value are distributed through selective channels

MAJOR CHANNELS

The major channels traditionally used for distribution of consumer products, agricultural products and industrial products are given below There are meant only for a comparative purpose *and are not considered permanent ones*

CONSUMER PRODUCTS

(*a*) **Producer Consumer** This is the shortest and simplest channel where no middleman is involved The producer effects house to house selling with the help of his own salesmen or through mail order system or retailing

(*b*) **Producer—Retailer—Consumer** Where the merchandise require elaborate outlets and are sold in bulk this channel would be suitable Perishable products and products which are of everyday use require such an arrangement Having a wholesaler means delay in taking the goods to the point of sale

(*c*) **Producer—Wholesaler—Retailer—Consumer** This is the most traditional channel for many of the consumer goods In

areas where the size of the retailing institutions is small and widespread, a wholesaler is essential to coordinate the retailers Products requiring a balanced or an equitable distribution also require this elaborate channel

(*d*) **Producer—Agent—Retailer—Consumer** In place of wholesalers the producer may have his own exclusive agents This is mainly to achieve more control over the distribution channels Hardware, sports goods, etc are the merchahdise dealt in through this channel Where the retailer is absent the agent himself would discharge the functions of the retailer Branded products are more suitable for this channel

(*e*) **Producer—Agent—Wholesaler—Retailer—Consumer.** This is only an extension of the above described channel and is needed when elaborate distribution arrangements are required.

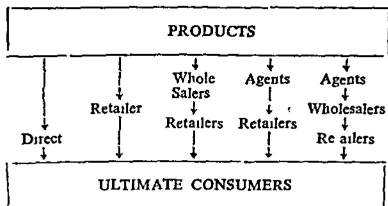


Fig 9 1 Consumer Products Channels

AGRICULTURAL PRODUCTS

One of the chief characteristic features of the distribution of agricultural products is the presence of large number of brokers and agents These brokers who stand at far with the retailers in the customer goods channel perform numerous functions of their own For example they sometimes act as assemblers and thereafter instead of selling the products to ultimate consumers sell to wholesalers. There are local elevators who collect the products on behalf of others (i e for manufacturers or for wholesalers or for their own behalf) The direct sale is very meagre The presence and involvement of cooperative societies in the channel is peculiar to griculture products Another notable feature is that these channels

are not at all permanent They may vary from product to product and even from one season to another For example, the channel for paddy has no resemblance to the channel for cotton or jute

INDUSTRIAL PRODUCTS

In contract with the consumer goods, the industrial goods have more or less fixed patterns Naturally the channels available are also less complicated Major channels recognised in industrial marketing are as follows

(*a*) **Producer—Industrial User** This is the most commonly used channel in the distribution of industrial goods Manufacturers of machinery prefer to adopt this channel to avoid unnecessary expenditure on transport insurance etc

(*b*) **Producer—Industrial Distributor—User** This channel is used in the distribution of accessary equipments which are frequently required by users The users cannot always approach the manufacturer for their requirements As such industrial distributors arranged on an areawise basis become inevitable

(*c*) **Producer—Agent—User** Small sized manufacturers who do not have their own marketing departments find it convenient to have agents at different selling points This arrangement is considered good for introducing new products

(*d*) **Producer—Agent—Industrial Distributor—User** It is a combination of the above two channels adopted to suit varying conditions on the basis of geographical factors

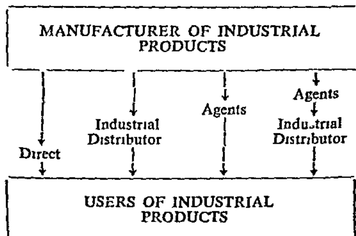


Fig 9 2 Industrial Products Channels

9 6 How can the efficiency of the Channels of Distribution be measured ?

There exists a gap between the producer and the consumer. This gap is bridged by various methods and one of them is the use of proper channel of distribution The gap between the producer and the user is the sum total of various gap such as

(a) Geographical gap—created by distance between producer s and purchaser s places
(b) Time gap—due to time elapse between production and final purchase
(c) Knowledge gap—resulting on account of the lack of transport and communication
(d) Technological gap—due to fast changes taking place in the process of production
(e) Possession gap—created by legal restraints on marketing which restrict the transfer of title from the producer to user

Because of these complications channel decision is a major policy decision Firstly the channel chosen for the company s products ultimately affects every other marketing decision secondly frequent and absert changes are out of question and hence channel decision implies long term commitment Quite centrary to this some imes it becomes necessary to review the performance of distribution channels and to consider alternative channels in order to maximise efficiency

CHANNEL RESEARCH

The channel of distribution is basically meant for efficient and equitable distribution of merchandise at the lowest possible cost All these elements are based on the sincerity of distributors and how they reach the customers This could be judged only by their performance But a manufacturer has to take the decision of a channel long before it is actually tested for its ability and efficiency Channel Research is the one tool with which a manufacturer is able to gather information in this regard But such information must be accurate and current A successful retailer in the past may not be able to fetch consumers for a new product In general when a manufacturer chooses a channel he must once again consider the following matters

1 Accessibility to the markets through the channel
2 Location of retailing institutions compared to the location of consumers

3 Product planning policies also will exert considerable influence on the decision of suitable channels

4 Promotion policies undertaken by channel personnel are yet another consideration The retailers depending completely on the manufacturers to undertake promotional policies will be a liability to the manufacturers

5 Services required for the product after its sale is also equally important from the point of view of the manufacturers This is a method by which the manufacturers try to maintain contact with the consumers In such instances middlemen should be able to render such service to the best satisfaction of the consumers

6 Middlemen must have enough financial background This might be the reason why most of the manufacturers insist on bank guarantee before an agent or wholesaler is appointed

Thus the selection of distribution channel is a complicated affair and one can not say in the first instance, which channel is good and which is not The proverb 'grass very often looks greener on the other side of the fence is always found applicable here Certain companies that have traditionally sold through wholesalers or distributors may consider going direct to users and vice versa. Constant adjustments are needed in the channels of distribution because the institutions that make up the channels are themselves constantly changing

There are other factors that contribute to creating distribution channel problems for the manufacturers Since channels are methods of reaching markets changes in markets require corresponding changes in the distribution channels Similarly changes in products or consumer s attitudes toward products may require changes in channels The activities of competitors determine the aggressiveness of promotion sometimes necessary to sell a product successfully This naturally may require changes in competitive action followed by changes in the channels of distribution For all these reasons manufacturers must regularly keep evaluating their channels of distribution.

POINTS AT A GLANCE

1. **Modern large scale methods of Production necessitate different channels of distribution.** Five broad channels of distribution are

   (a) Manufacturer—Wholesaler—Retailer—Consumer

   (b) Manufacturer—His own depots—Retailer—Consumer;

   (c) Manufacturer—His own chain of shops—Consumer;

   (d) Manufacturer—by direct mail to consumers and

   (e) Manufacturer—by direct contact with the consumer

2. **Choice of channel of distribution is determined by**

   (i) Manufacturer s product,

   (ii) The market

   (iii) Capital resources of the manufacturer

   (iv) Production capacity,

   (v) Consumer contact

   (vi) Multiplication of outlets for the product,

   (vii) Selling costs

   (viii) Sales resistance

   (ix) Competition and

   (x) Considerations of efficiency with economy

3. **Necessity and reasons for a change in channel of distribution**

   (i) Present outlet becoming in efficient,

   (ii) Charge in the buying habits of the consumers

   (iii) Manufacturer's desire to make his goods easily available

   (iv) Complaints about retailers and middlemen

   (v) New developments due to product research

   (vi) New uses of the same product

   (vii) Achievement in the terms of lower selling costs

   (viii) Achieving independence from wholesalers

   (ix) Improvement in sales and services

   (x) Maintenance of price

   (xi) Increase in the volume of sales and

   (xii) Opposition from the present distributors.

4. Selective distribution for speciality goods involves

(i) Selling to a selected or exclusive market, or

(ii) Selling to a particular territory, within which non competing distributors are selected, or

(iii) A close collaboration to be worked out between a manufacturer and a distributor serving a particular trade

5 Advantages of Selective distribution.

(i) Stabilisation of distribution.

(ii) Lesser distribution points

(iii) Lower costs, better direction and control of sales

10

Sales Promotion

INTRODUCTION

"Sales promotion means any step that are taken for the purpose of obtaining or increasing sales ' —**A H.R. Delons**

Promotion is the final element in the marketing mix. After the nature of the product is decided, its price fixed, and the methods of distribution decided, the manufacturer has to take effective steps in meeting the consumers in the market In the present consumer oriented markets it is the duty of the manufacturers to know what is required by the consumers It is also their duty to make the customers know from where, when how and at what prices The products would be available In this chapter we shall discuss the various methods of sales promotion at different levels—Sales promotion at the level of the dealers and consumers

10 1 What is Sales Promotion ? Distinguish between

(a) Promotion and Selling

(b) Sales Promotion and Promotion

(c) Sales Promotion and Advertising

MEANING OF PROMOTION

The term promotion is a general term and includes mainly three types of sales activity

(i) Mass impersonal selling methods (advertising)

(ii) Face to face or Personal Selling (Salesmanship) and

(iii) Activities other than Personal Selling and Advertising such as point of purchase display (P O P) shows and exhibitions demonstrations and other non securring selling efforts This form of activity is called Sales Promotion

There are two types of promotion blends (i) Pull Blend

and (ii) Push Blend Both of these are closely related to the Channel of Distribution

(i) A pull blend is one in which mass impersonal, sales efforts are given the greatest emphasis The purpose of pull b end is to pre sell to the final consumers So that they demand the product at the retail level of distribution The firm adopting this strategy would spend more on advertising and sales promotion rather than in personal selling These efforts will pull down the product from the manufacturer

(ii) A push blend emphasises personal selling Naturally firms adopting this method develop a strong sales force at both the distributor and the dealer level This method would tend to push the product through the channel of *distribution*

PROMOTION AND SELLING

The term promotion is very often used as a synonym for selling But selling is a narrow term which includes only transfer of title or personal selling Promotion on the other hand, is broader in its outlook and includes a variety of activities used ultimately for increasing sales volume

PROMOTION AND SALES PROMOTION

Similarly the term sales promotion cannot be taken to mean what is commonly does Sales promotion is only a part of the promotion Basically promotion is an ' exercise in information, persuation and influence ' Promotion has come to mean the over all coordination of advertising, selling, publicity and public relations Promotion is a helping function designed to make all other marketing activities more effective and efficient But sales promotion as such helps only the selling activity Still there exist some differences of opinion on the real connotation of the term Sales Promotion

W Q Kelley opines, "Muddled Misused Misunderstood That is sales promotion According to him the field of sales promotion as a marketing activity is still vagely defined and organised

SALES PROMOTION AND ADVERTISING

There is no universally accepted distinction between these two terms To some advertising includes all forms of mass media

communication directed towards influencing the end consumer Sales promotion on the other hand, includes the forms of mass communication directed towards informing and influencing the channels of distribution (*e g*, distributors, retailers, etc.) Hence a price of product literature mailed directly to a customer is advertising literature distributed by retailers is sales promotion. Thus sales promotion merges on one side into advertising and on the other into personal salesmanship It is concerned with the dissemination of information to wholesalers, retailers, customers (both actual and potential) and to the salesman

Sales promotion is concerned with the creation, application and dissemination of materials and techniques that supplement advertising and personal selling Sales promotion makes use of direct mail catalogues trade shows sales contests, premiums, samples window displays and other aids Its purpose is to increase the desire of salesmen, distributors and dealers to sell a certain brand and to make consumers more eager to buy that brand. Personal selling and advertising do include prospects to make these decisions Sales promotion provides an extra stumulus

10 2 What are the objectives of Sales Promotion? Mention Sales promotion at different levels

OBJECTIVES OF SALES PROMOTION

(*i*) To increase sales directly by publicity through media which are complementary to press and poster advertising.

(*ii*) To disseminate information through salesmen, dealers, *etc So as to ensure the product getting into satisfactory* use by the ultimate consumer

(*iii*) To attract new customers

(*iv*) To face the competition effectively

(*v*) To help salesmen in selling more to the retailers and consumers

(*vi*) To check seasonal decline in sales

Generally speaking sales promotion involves rendering the following services

(*a*) Services to dealers ,
(*b*) Services to own salesmen and
(*c*) *Special Publicity*

SALES PROMOTION AT DIFFERENT LEVELS

(*a*) Sales Promotion at Dealer's Level

It may include various schemes some of which are discussed here

1 **Advertising Materials.** The advertising materials prepared by the company such as store signs, banners shelf signs, boards etc are distributed to sub-dealers for display purposes This is in fact a method of advertising

2 **Store Demonstration.** In the premises of the wholesaler or the retailer, the producer's sales personnel will conduct special demonstration for the company s product A personal demonstration is good to introduce a new product as its peculiar advantages can be highlightened and the consumer's doubts cleared It can be used to restimulate an old product A good demonstration with a great deal of action will draw heavy crowds into the store and will attract attention to the product.

3 **Special Displays and Shows** These are seasonal in character but could be arranged in an elaborate manner and for all the products of a company Usually these are arranged along with trade fairs and exhibitions Besides effecting sales these shows impress the company s name generally on the public

4 **Dealer Contests** This is an indirect way of increasing sales It is conducted by the manufacturer at a wholesale or retail level Such contests may take the form of window display, internal store display etc, sales contests (large scale volume) etc The winners are rewarded either in cash or in some other interesting forms This certainly involves financial commitments

5 **Dealer Premiums** The dealer is offered a gift every time he purchases a given number of units of company's brands This scheme is also financial in nature as the dealer is given cash/kind discounts for such purchases

(b) Sales Promotion at Consumer's Level

The various schemes of Sales Promotion at consumer s level may include

1 **Coupons (a chit of stated value)** These are given directly to the consumer These coupons are in most cases kept inside the package The consumer may receive a price reduction of the stated value of the coupon at the time of purchase The retailer receives reimbursement for the value of the coupon from the manufacturer Coupons act as a short run stimulus to the sale of the product, since they are directly tied with the purchase of the item They encourage the retailer to stock the product.

What is important is that a coupon offer does not spoil the named price of the brand nor does it impair the margin of the

dealer But it is not easy to measure the effectiveness of a coupon offer One never knows how many customers would have bought the product without the incentive It is also difficult to find out how many customers were held after the coupon offer expired

2 **Price off offer (also known as bargain offer Price Packs)** This offer is intended to stimulate the sales during a stump season In this method the customer is offered a reduction from the printed price list It is also used when a substitute or competing product enters the market.

Many experts on sales promotion feel that 'off schemes are among the weaker and less desirable methods of promotion There can be trade resentment particularly when the retailer raises the *price to retain his margin Secondly this is not conducive to building up brand loyalty Consumers may simply shift to the* products that offer this scheme

3 **Samples** In the hope of converting a prospect into a customer a sample (some quantity of the product) may be given This helps the consumer to verify the real quality of the product Various paint manufacturing companies offer this method For developing brand loyalty this method is quite usefel Sampling is a fast method of demand creation because one knows the result as soon as the consumer has had time to use the sample and buy the brand

Disadvantages of Samples Offering samples is quite expensive There is the cost of producing samples The distribution costs are also high Samples have to be mailed to potential customers or to be distributed through retail shops There are also problems when the real product does not resemble the sample supplied

4 **Money Refund Offer** An offer usually stated on the package is that the manufacturers will return within a stated period part or all of the purchaser s money if he is not completely satisfied with the product.

5 **Trading Stamps.** A premium in the form of stamps is given by the seller to consumers while selling goods The number and value of stamps that the buyer receives depends on the value of the purchase These stamps are redeemable through premium catalogues at the stamp redemption centres

6 **Buy back Allowance** This is an allowance following a previous trade deal not offer a certain amount of money for new

purchases based on the quantity of purchases made on the first trade deal It extends the life of a trade deal and helps to prevent past deal sales decline It greatly strengthens the buyer s motivation to cooperate on the first trade deal

7 **Premium** There are various forms of premiums provided by the manufacturer as sales promotional devices

(*a*) **Coupons** are supplied for effecting price reductions

(*b*) **Factory in Pack Premium** These are popalar in the case of Baby Food and Tin Food items Spoons cups measuring glass etc and such other items are packed with the product in the box itself Factory in pack premiums are particularly good for products meant for children The Binaca Toothpaste packs contain animal shape toys These are very attractive and quite popular among the children

(*c*) **Self Liquidating Premiums** The cost of the premium is collected from the buyer himself But when the buyer pays for it he has to pay only a considerably low price for the premium This is possible for the manufacturer purchases the items in bulk at a premium and his cost per unit is substantially low

OTHER STEPS BY MANUFACTURERS FOR PROMOTING SALES

Dealers can be helped in different ways

1 **Communicating market news** Often this service is reciprocal The manufacturer may acquaint his dealers with the facts relating to his production and prices while the dealers may familiarise him in return with the information bearing on changes in the consumer s demand their likes and dislike complaints and criticism substitutes, etc

2. **Inviting to sales conferences and conventions** The gestures of regard and respect pave the way for better relations and cooperation

3 **Offering reasonable terms of sale** of all the forms of encouragement the monetary incentive evokes immediate response Hence every producer must offer the most reasonable terms of sale such as longer periods of credit and higher rates of discounts

4. Supplying suitable packages and useful things

5 By taking the returns back

6 By furnishing them with sales literature and display materials

10 3 What is meant by Aggressive Selling ? What are the methods generally employed for aggressive selling ?

AGGRESSIVE SELLING

Meaning Goods are produced for market Manufacturers have to make efforts to sell all they produce. When the manufacturer uses various sales efforts to obtain increased sales volume for his product it is called aggressive selling or offensive selling The sales efforts which a manufacturer makes to retain his customers, i e to protect his already established market against his competitors is termed as defensive selling In contrast to this aggressive selling is concerned with the sales efforts made with the express objective of selling more by expanding the market for the products of the selling firm

Aggressive Selling and Defensive Selling

Aggressive selling is based on the answer to the question 'How much does the firm gain (in terms of sales with profit) by using this method ? Defensive selling is based on the consideration as to how much the firm will lose if it does not use this method ?

Increase of sales can be obtained from two sources

(i) New customers if the market is expanding
(ii) From the competitors i e those consumers who were purchasing similar products of competing firms, if the market for the products is static

' In case of an expanding market all the firms may stand to gain by following the methods of aggressive selling But if the market is static manufacturer of a new market will have to be much more aggressive to capture the established market of competitors —(H Whitehead)

When Aggressive Selling is Resorted ?

Usually manufacturer of a new product has to do aggressive selling

(i) When the product has been improved
(ii) When the manufacturer s product is supervisor in quality to the product of the established competitor
(iii) When the total market for the product or line of product to expanding
(iv) If the manufacturer s share of the market is comparatively small

(v) If the manufacturer has unused production capacity with heavy investment in plant and equipment he will like to develop the demand for his product rapidly so that demand for his product is equal to the optimum production capacity of his plant, and

(vi) When primary demand for a product must be created and provision must be made in the channel of distribution to educate consumers regarding the new product and to instruct them in its use

METHODS OF AGGRESSIVE SELLING

Sales promotion efforts used for aggressive selling may be divided into two classes

(a) Trade Promotion, and

(b) Consumer Promotion

(a) **Trade Promotion** Under trade promotion methods special incentives are offered to the trader to buy products of the firm Such incentive may take one or more of the following forms

(i) **Cash Allowance** A definite percentage of discount is allowed on the purchase of given unit of a product

(ii) **Extra Product** Instead of giving any cash allowance, extra product is given with each unit of product ordered For instance if a box normally contains 20 cakes of Soap, special box containing 25 cakes may be made and sold at the same price as that of the box of 20 cakes

(iii) **Gifts** Various gifts are awarded in return for an order of a particular magnitude

(b) **Consumer Promotion** Under consumer promotion method special incentives are offered to the consumers to buy the firm s products The more prominent amongst such incentives are as following

(i) **Coupons** A coupon of a given value is sent to the consumer By presenting this coupon to the retailer, consumers can purchase a particular product mentioned on the coupon at a reduced price The retailer sells the product mentioned in the coupon to such consumers (consumers presenting the coupons) under an arrangement with the manufacturer at a price lower than the usual retail price Thus the consumer gets the benefit of reduced price to the extent of the value of the coupons

(ii) **Self Liquidating Offers** Under this system the firm offers an article at an attracting price if the consumer sends a given sum

of money accompanied by a given number of box tops from the packages of a particular product The benefit to the consumer is that he receives the articles at a bargain price

(iii) **Bargain Packs** Under this system a product is sold at a reduced price for a short period Bargain pack method encourages new consumers to try the product It is also helpful in obtaining large displays in the shops

(iv) **Sampling** This method involves giving the product or a small quantity of the product to a consumer free with the hope that the customer will be favourably impressed with its actual use and will eventually become a regular purchaser of the product

A firm selling new product or an extensively improved product finds this method useful Also a firm whose market is held by competitors finds free sampling almost inexpensive

The above mentioned methods may be reinfored by adopting

(i) Direct method of selling through the use of door to door selling

(ii) Offer of liberal credit facilities,

(iii) Hire purchase and instalment payment methods of selling and by forming combinations

OTHER METHODS OF AGGRESSIVE SELLING

(i) Employment of 'missionary salesmen also known as 'promotional salesmen These salesmen call upon retailers and aggressively promote a product.

(ii) Instead of using wholesalers, the firm may develop its own sales force to call directly on retailers

(iii) The firm may follow a compromise method by employing a manufacturer s agent and giving him a large enough commission to encourage him to sell product intensively and aggressively

(iv) New territory exploitation—sales promotion has a particularly important role in developing the company's products in new territories

(v) Increments and promotions

(vi) Letters to dealers and customers

In fact, an ingenious sales manager can devise any number of incentive schemes for promoting the sales volume

IMPORTANCE OF SALES PROMOTION

We have seen sales promotion may include any step that is taken for the purpose of obtaining or increasing sales It refers to selling efforts that are designed to supplement personal selling and

advertising and coordinating as to make them more effective Importance of sales promotion has greatly increased in the present day market conditions, keen competition and expanding markets Importance of sales promotion can be summarised as follows

(a) **In view of Manufacturer**

1 More effectiveness of advertisement and personal selling
2 Expansion of sales
3 Increment in demand of new products
4 Experimental opportunities to invent new product
5 Reduction in unit cost
6 Increase of goodwill of the manufacturer
7 Direct control possible

(b) **In view of Middlemen**

1 Promotion of Trade
2 Many fold facilities from the producers
3 Win of competition Influenced by the promotional efforts the customers themselves approach for making purchases
4 As a supplement to advertising.

(c) **In view of the Consumer**

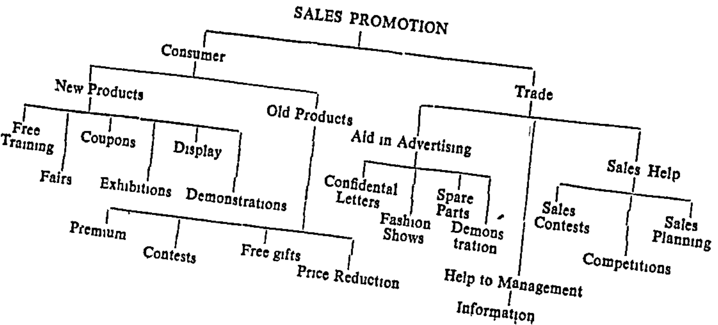
1 Trust in commodities
2 Cooperation of traders
3 Improvement in the standard of living
4 Increment of knowledge about new products
5 Availability of articles at cheap rate

POINTS AT A GLANCE

1 **Meaning of Sales Promotion.** Sales promotion is concerned with the creation, application and dissemination of materials and techniques that supplement advertising and personal selling

2. **Objectives of Sales Promotion**

(i) To increase sales
(ii) To disseminate information through salesmen and dealers
(iii) To attract new customers
(iv) To face the competition effectively
(v) To help salesmen in selling more to the retailers and consumers
(vi) To check seasonal decline in sales


SALES PROMOTION
Consumer
Trade
New Products
Old Products
Free Training
Fairs
Coupons
Exhibitions
Display
Demonstrations
Premium
Contests
Free gifts
Price Reduction
Aid in Advertising
Confidental Letters
Fashion Shows
Spare Parts
Demons tration
Help to Management
Information
Sales Help
Sales Contests
Competitions
Sales Planning

3. Sales Promotion Involves Rendering Services to

(i) Dealers—display materials, dealers aid, package design

(ii) Salesmen—training and developing selling techniques special sales aids

(iii) Use of signs, samples, gift schemes calendars, etc Special Sales aid—radio, T V advertising, exhibition sales contests etc

4 Aggressive Selling Efforts to sell all what is produced Sales efforts made with the express objective of selling more by expanding the market for the products

5 Methods of Aggressive Selling

(i) Trade promotion—Cash allowance extra product, gifts, etc

(ii) Consumer promotion—Coupon self liquidating offers *bargain packs, sampling*

6 Other Methods of Aggressivs Selling

(i) The firm may employ missionary salesmen also known as 'promotional salesmen

(ii) The firm may develop its own sales force to call directly on retailers

(iii) The firm may follow compromise method by employing a manufacturers agent and giving him a large enough commision to encourage him to sell products intensively

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11

Sales Forecasting and Planning

INTRODUCTION

' The really important and creative part of the marketer s task is prediction and innovation ' —McLever

Forecasting of future events is done by all of us and businessmen forecast generally regarding their business, consciously or unconsciously Forecasting enables the formu lation of the plan of action on the basis of anticipated future events where in the proximate events are outlined with greater distinctions we shall discuss in this chapter the various factors influencing the sales forecasts types of forecasts sales fore casting procedure and methods

11 1 What is Sales Forecast ? What factors influence it ? Briefly explain the various methods of forecasting sales

THE SALES FORECAST

Forecasting of future events is done by all of us and business men forecast generally, regarding their business consciously and the unconsciously Forecasting enables the formulation of the plan of action on the basis of anticipated future events where in proximate events are outlined with greater distinctions

The marketing manager is required to forecast what is likely to happen in the future in order to adopt an appropriate marketing strategy

The sales forecast s an estimate of sales in rupees of units for a specified future period under a proposed marketing plan or programme It forms the basis of most planning Whether concerned with marketing production finance or purchasing After establish ing the market or sales potential the organisation must prepare a sales forecast for the organisation itself The forecast includes consideration of outside uncontrollable forces as well as the internal proposed changes in the marketing strategy

Forecasting Period

The forecast may be for a short period up to one year when it should be reasonably accurate or it may be for periods extending over one year A long range forecast should also be made to anticipate the extra finance or personnel required in the future

Factors Influencing the Sales Forecast

Besides quantitative statistics the sales manager must consider the following factors whilst forecasting his sales, namely

(a) The general business condition

(b) The conditions within the industry

(c) The changed market situation

(d) The conditions within the company

The future economic conditions can materially affect the company s future sales The marketing manager, therefore, be familiar with the trends in the economy He is also required to assess the trends and conditions within his own industry as his sales forecast is materially based on the industry forecast. He must also be in constant touch with the changed market situation as well as internal changes within his own company such as in the price structure distribution channel, sales promotional measures and product policies

TYPES OF FORECASTS

(Basic Types)

1 The economic forecast

2 The Industry forecast.

3 The company s sales forecast

The economic forecast seeks to predict what will happen to the business in general in the light of economic trends

The industry forecast tries to forecast the total sales of the industry in which the organisation operates

The company s sales forecast is made then on the basis of what share of the industry s sales the organisation itself seeks to capture during the next year or years

FORECASTING REQUIREMENTS

'The really important and creative part of the marketers task is prediction and innovation The marketing manager is concerned with predicting But prediction requires adequate data and skill to interpret the same It requires mainly

(i) An adequate understanding of demand concepts and demand determinants

(ii) An appreciation of economic trends.

(iii) Adoption of the correct sales forecasting procedure and techniques

(iv) An awareness of the limitations of sales forecasting

DEMAND CONCEPTS AND DETERMINANTS

The marketing manager must be familiar with demand concepts and demand determinants as he is constantly assessing why consumers purchase his products and how he can affect their future behaviour through his promotion, pricing, product development and distribution strategies

Marketing activity may stimulate primary demand i e, demand for a particular type of product or selective demand', i e, demand for the product of the company itself While in case of industrial goods the concept of 'desired demand' becomes of importance as the demand for industrial goods generally depends on and fluctuates with the demand for goods and services they are used to produce

Major Demand Determinants

The following are the major demand determinates

(i) Price

(ii) Population (number of people available to purchase)

(iii) Income (extent of disposable income and people s expectations as to their future income

(iv) Satisfaction—economic and non economic factors such as fashion trends taste comfort and emulation

(v) Substitutability—it is again related to factors such as relative prices and easy availability

(vi) Competition

(vii) Advertising and promotion

ECONOMIC TRENDS

Estimates of the national income constitute useful indicators of economic progress For development planning the following type of information is relevant

(i) What part of the total product of an economy is devoted to consumption as opposed to capital formation

(ii) The extent which the economy is dependent on foreign trade

(iii) The part which is played by foreign aid in providing the goods and services absorbed by the economy

(iv) The relative amounts of production originating in various industrial sectors as agriculture manufacturing and trade.

(v) The extent and manner in which different parts of the economy make saving available for capital development.

(vi) Other prices of information of a similar kind

Movement in National Income

The movement in national income and other related aggregates are often correlated with the demand for many basic, capital intermediate and consumer goods National income statistics can be used in a variety of ways in forecasts The study of the national income can provide indicators of the trends in the economic environment which constitute the background within which the company must forecast the sales of its own products

11 2 Examine the various Forecasting Procedure and Methods

The sales forecasting procedure first requires a crystalisation of the objectives of the forecast a determination of the relative importance of various factors which might affect the sales of the different groups of the company s products a selection of appropriate forecasting method collection of the necessary information, and making of assumptions and converting them into specific forecasts relating to the products and territories involved Forecasts must be reviewed periodically

FORECASTING METHODS

The following are the major Sales Forecasting methods

(a) The Jury of Executive Opinion Method

(b) The Sales Force Composite Opinion Method

(c) The User s Expectations Method

(d) Statistical Method

(a) The Jury of Executive Opinion Method

This method attempts to combine and average the opinions and views of top executives However when compared with a method which has a more factual basis this is an inferior method Besides it uses up costly executive time

(b) The Sales Force Composite Method

This method seeks to forecast on the basis of the views expressed by those directly concerned with selling the product Whilst this is an advantage salesmen are generally poor estimators and the salesmen s time available for selling is curtailed by this extra task

(c) **The User's Expectation Method**

Here, estimates are secured from product users of what they expect to purchase in the future and on this basis sales forecasts are made by the company The defect of this method is that it is based on expectations which may change

(d) **Statistical and Quantitative Method**

Personal judgement should be supplemented through the use of statistical and quantitative methods Forecasters often use the Trend Method to relate the trend of the company s or industry s sales to other economic movements The presumption here is that the factors responsible for the past movements will continue to play an equal role in the future The regression technique also uses past data The correlation method seeks to ascertain whether the movement of two variables are in the same direction Multiple Correlation Analysis seeks to ascertain the correlation between one variable and several variables

Statistical and quantitative techniques do help describe in measurable objective terms factors and their relationship with the course of sales Apart from objectively, they force the forecaster to qualify assumption and consider the major factors concerning sales

However placing over reliance on such methods may cause difficulties and wrong results In the ultimate analysis apart from reliability of the model or method used the quality of interpretation of research information is of extreme importance

LIMITATIONS OF SALES FORECASTS

The forecasts may not turn out to be accurate There are several limitations of sales forecast

(i) Fashion
(ii) Absence of sales history in the case of a new product
(iii) Growth elements
(iv) Psychological Factors

(i) **Fashion** Introduction of new fashion may disturb the forecast Future sales depend on the reception by the market If it becomes popular sales will be enormous otherwise it will prove the reverse

(ii) **Lack of Sales History** For new product there *is no* past sales history guess work proves limitation to the accuracy of the forecast.

(iii) **Anticipatory Growth Factors** It is difficult to maintain a rapid rate of growth over an extended period of time The market manager must estimate the probable rate of growth and consider it whilst preparing the sales forecast for his company

(iv) **Psychological Factors** The consumer attitude can change suddenly from confidence to apprehensiveness about the future A rumour of war could create a forecastic demand for motor car tyres

CARE FOR SALES FORECASTING AND PLANNING

Godrej Co , produced soaps of different varieties for bathing They used medicated soaps with medical ingredients They conducted the sales forecast.

First of all, the concern looked after their finances to be utilised for the purpose The finances being ready, they prepared a sample which was introduced in the market. The medication of the soap was preferred by the people The soap served an company s name The people purchased it Its colour was admired by the people On the basis of these information sales forecast may be made easily

11 3 Why is planning activity essential to the effective sales management and in which directions may the activity be directed ?

IMPORTANCE OF PLANNING

Planning is one of the basic elements of management and has a prime position in as much it is the start of any sequence of management functions Planning also has a prefound effect other management and organisational activities Planning is unique among the elements of management as it may warrant no further action A company may as a result of investigation carried out to formulate plans decide not to pursue the project further

Implementing the results of planning is fundamental to the functions or organising motivating and controlling Plannino activity is essential to effective sales management and may be directed in several ways

(i) Planning of product mix
(ii) Planning of channels of distribution
(iii) Planning of sales force requirements
(iv) Planning of physical distribution warehousing

(v) Planning of promotional activities
(vi) Planning of control activities, and
(vii) Planning of financial resources and allocations

In addition to the responsibility of planning the operational needs, the sales management will also determine objectives of the organisation in accordance with the policy of the company

OBJECTIVES

Objectives may be defined as "The recognisable and predetermined goals to which the efforts of the organisation are directed Any organisation must have clearly defined objectives to which it directs its efforts if it is to avoid meaningless progression of ideas The statement of an objective is a recognisation of a purpose and when applied to sales management it becomes the 'raison d'etre' of function Objectives must be clearly stated in writing and made known to those who will be involved in its accomplishment John F Mel writes "Management Philosophy for Professional Executives—Before initiating any course of action, the objectives in view must be clearly determined understood and stated

Characteristics of Objectives

(a) The essential characteristic of an objective is that it is predetermined, a fact which isolates it from the process of accomplishing the objective
(b) An objective has to be clearly stated generally in written form which assists in clarifying the objective and commits personnel to its accomplishment
(c) Objectives should be logical and attainable, but they should serve to encourage the organisation to greater effort to ensure their accomplishment

Objectives have four benefits to the organisation resulting from their attainment

1 Direction
2 Motivation
3 Basis for the control
4 Basis for the style of management

THE ROLE OF PLANNING

Having set objectives the role of planning is to decide how far they can be realise with existing resources A sales manager's decision to enter a new market, to export to introduce a new product will require examination for existing resources

(a) Existing Sales Force,
(b) Manufacturing Capacity,
(c) Financial Resources, and
(d) Advertising or other promotional expenditure

Sales management has a high degree of responsibility for planning whether the objective is essentially a sales objective or whether it is production, or financial objective Since the revenue of a company ultimately derives from some forms of sale, the volume of sales is all important in judging the practicality of the objective

11.4 Define the three forecasting areas and describe their essential points

SALES FORECASTING

The central problem of forecasting sales arises from the need to predict consumer actions in buying goods at particular prices A simple answer is that forecasting can not do this accurately but it can by means of forecasting techniques provide an indication of results It is important to make it clear that while emphasis is placed upon the importance of predicting consumer trends, fore casting is equally applicable to goods used by industry to produce consumer goods or to make other manufacturer s goods these are known as producer s goods

The Time Period of the Forecasting Sales management's decisions on what can be sold in what quantities, where how, and when have to be quantified in terms of time if they are to be of operational value One may rephrase the question

During what period of time will quantities of particular goods be sold in specific areas and at specific costs ? This will also need to include

1 Costs of promotion
2 Costs of sales and
3 Predetermined prices

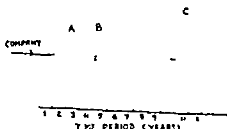
Once these answers have been determined a projection of costs and income can be made This predicted as a break even chart, will be essential for a valid control system Since all answers depend upon being able to predict the quantity of goods to be sold the first step in the process is to determine that

The forecast predicts trends in the future and the further into the future the forecast can be made the more helpful it will

prove in planning the general and specific direction of the business The time period of the forecast will depend upon the specific needs of the business

THREE FORECASTING AREAS

The purpose of the forecast is to predict the future trends but it should not be a static period



(A) *Immediate Forecast*
(B) *Long Term Operational Forecast*
(C) *Long Term Objective Forecast*

Fig 11 1 *Three Forecasting Areas*

Forecasts should continually search a head, and in this they resemble a radar scanner before a ship (See Fig above) In order of time they are

(a) Long term objective forecast,
(b) Long term operational forecast, and
(c) Immediate forecast

(a) Long Term Objective Forecast

There are two aspects underlying the long term objective forecast

(i) It makes no pretensions to accuracy and

(ii) It seeks to indicate the general changes which are likely to occur in the future which could have a fundamental effect upon the company s operations To understand fully the company s objective it is necessary for the company to examine critically and systematically its capability experience and marketing knowledge In this critical analysis the company's long term objective forecast is synonymous with its marketing strategy

Factors which may influence a company's operations are

1 Population Changes,
2 Economic Trends, and
3 Technical Innovation

The purpose of the long term objective forecast is to remind the company s executives of the purpose for which they are in business and it should alert them at the earliest moment to forces which may cause changes to be made to their declared objectives

(b) Long term Operational Forecast

Shortening the time scale to a period that is limited by the ability of executives to act on information determines how far ahead the operational forecast should seen The manner in which industry has determined that operational forecasts are longer Long term operational forecasts have to be modified from time to time The degree of modification will depend to a large extent upon the way in which the project was initially conceived

(c) Short term of Immediate Forecast

The immediate forecast is concerned with the period during which executives will be taking decision continually on a day to day basis The control element will be most effective if the objectives have been clearly and precisely defined even if they have to be flexible Information for the short term forecast can be obtained from salesmen s reports which will be of and both in compiling the forecast and in modifying it during the duration of the forecast period It is usual to consider a period of one year divided into quarters or months to be the logical length for the period The manner in which the forecast is calculated varies but four systems are most used

(i) Extrapolation
(ii) Economic Forecasting,
(iii) Market Research, and
(iv) Sales Oriented Information

(i) **Extrapolation** It is a forecasting technique that is simple to use since it relies merely on the projection of past trends as in diagram ahead If a company by examining its past sales can find a yearly increase of 10% then it can reasonably predict that the next year is also likely to produce a 10% increase

Extrapolation can be effective and reliable in those areas where changes take place slowly, e g , population growth or antici-

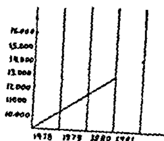


Fig 11 2 Extrapolation of next year s sales at 10% p a

pated growth in demand for electricity As a technique for forecasting sales it has limitations Competitive activity is unpredictable as new products may influence market trends It has also to be understood that wholly dissimilar products may influence each others sales A revolutionary design in electric cookers may attract consumers to buy them and the money spent might have been used otherwise on other things Unexpected hazards may also influence sales strikes natural disasters or international problems which may interfere with supplies.

(ii) Economic Forecasting For the immediate future economic forecasting can be a guide to the expectancy of sales. It can not be more than an indication of a trend and has the serious disadvantage that economic trends are difficult to determine in the short term There are some areas nevertheless that can give the alert sales force an indication of likely trends A salesmen selling to the building trade may be alerted to a downward trend if inflation leads to the government to slowdown growth and cut back on capital projects It follows that the converse will also apply when the economy begins to recover business will grow

(iii) Market Research. As air aid to forecasting in the short term market research has to be directed accurately at selected areas. A firm may use questionnaire to extract answers to specific questions

(iv) Sales Oriented Information The sales force is a valuable aid to forecasting trends in the short term and the information can be kept upto date and revised quickly in response to change. Salesmen are required to submit a monthly sales report which will give information on actual sales achieved and this information will

be collected and used for extrapolation In addition they can provide the following information

(a) What orders do you expect next month
(b) What orders do you anticipate within the following two months
(c) Information on competitive activity

There are advantages to be gained from using the year as a period for the forecast. Most government reports, statistical surveys etc normally extend over months and years The national budget also uses a year as a base and affects many business decisions

ELEMENTS OF SALES PLANNING

Sales management s first responsibility is the planning and *control of the physical selling effort, to ensure that* company objectives for sales and profits are met In order to achieve these targets sales management

(i) Directs and controls field selling activities
(ii) Determines the channel of distribution that will accord with customer s needs and organises the physical distribution in accordance with company policy, and
(iii) Ensures that these activities are achieved within the limitations of the financial budgets

The Planning Task *In any sales organisation the sales force* will be important in accomplishing objectives Whether the sales force is predominantly a selling as opposed to a merchandising operation will not greatly change sales management s planning task will also include

(i) Selling up practices for sales reporting
(ii) Determining standards of performance for sales personnel
(iii) Evaluating sales results achieved against planned performance
(iv) Establishing a system of statistical analysis and evaluation of sales and
(v) Establishing an adequate feedback control system to alert management to any necessary change in plans to correct deficiencies

Objectives of Sales Planning

Forecasting endeavours to predict likely trends Planning is concerned with analysing the forecast and interpreting the result

into operational requirements It will be concerned with information and communication needs as much as it will with financial and sales results in order to provide the necessary controls Its objectives are

(a) Sales Communication
(b) Sales Reporting
(c) Statistical Control and
(d) Review of Manpower Performance

POINTS AT A GLANCE

1 **The Sales Forecast** An estimate of sales in rupees of units for a specified future period under a proposed marketing plan or a programme

2 **Types of Forecast** Basic Types
  (i) The Economic Forecast.
  (ii) The Industry Forecast
  (iii) The Company s Sales Forecast

3 **Forecasting Requirements**
  (i) An understanding of demand concepts and demand determinants
  (ii) An appreciation of economic trends
  (iii) Adoption of the correct sales forecasting procedure and techniques
  (iv) An awareness of the limitations of sales forecasting

4 **Demand Determinants**
  (i) Price
  (ii) Population
  (iii) Income
  (iv) Satisfaction
  (v) Subst tutability
  (vi) Competition,
  (vii) Advertising and Promotion

5 **Economic Trends** Estimates of national income constitute useful indicators of economic progress Movement in income are correlated with the demand for many basic capital intermediate and consumer goods

6 **Sales Forecasting Procedure and Methods**

(i) Jury of executive opinion method
(ii) The sales force composite opinion method
(iii) The users expectation method
(iv) Statistical method

7 **Limitations of Sales Forecast** The sales forecast may not turn out to be accurate on account of

(i) Change in fashions and tasts
(ii) Absence of sales history in the case of new product
(iii) Growth elements
(iv) Psychological Factors.

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12 Pricing Policies and Practices

INTRODUCTION

'Marketers try to attain their long run pricing objectives through both price policies and pricing strategies'

Pricing is a critical decision as it affects sales revenue and ultimately the profits Marketer try to achieve their long run pricing objectives through both price policies and price strategies Management utilises price polices to guide itself generally in making pricing decision over long periods The pricing decisions management makes to fit the changing competitive situations met by specific products are its pricing strategies Price policies are general and long run while pricing strategies are specific and in effect for shorter periods. Setting the price is a key element in the formulation of pricing strategy and as the competitive situation changes with different stages in the products life cycle the relative amount of freedom management has in setting prices also changes

12 1 What is Price? What is its importance in business? Discuss the factors that influence prices of commodities?

Pricing the product is one of the important matter in marketing decision making It is surprising to note that until recently it has been one of the most neglected areas Even today pricing in some firms is simply based on the concepts of costs market position, competition and necessary profits

WHAT IS PRICE?

Price is the exchange value of a commodity or service in terms of money If there were no money, the exchange could still be undertaken but then the price would not be there Price is an important element in meeting consumer needs Price and pricing

policies are among the most important problems can confront management today Price is always an important consideration both to the buyer and the seller It can often success or disaster to a firm Prices are an important economic regulator

In perfect markets price is determined by supply and demand Perfect competition implies uniformity of price But uniformity of price does not necessarily mean the market is perfect Economists today refer to our economy as one with monopolistic competition which indicate the absence of a perfect market

FACTORS THAT INFLUENCE THE PRICE

For convenience the factors that can influence price decisions may be divided into two groups

1 Internal factors
2 External factors

1 Internal Factors Internal factors are well within the control of the organisation They are sometimes referred to as built in factors that affect the price These factors include costs and objectives Costs are the most decisive factor in the case of production In the past, price fixing was a simpler affair Just add up all costs incurred and divide the final figure by the number of units produced Adding necessary profits with the cost of production would give the price at which the products were to be sold The defect of this conception is that it desregards the external factors particularly demand and the value placed on goods by the ultimate consumers Whatever may be the cost of production there is a price at which the consumer is willing to buy Further more finding cost of production is not so simple today on account of the various lines of production as well as the distributing overhead costs

Objectives Many companies have established marketing goals or objectives and pricing contributes its share in achieving such goals *This is particularly true of large manufacturing concerns These* goals together may be termed as Pricing Policies

Prices policies may be divided into

(*a*) Stability in prices
(*b*) Maintenance or increase of the share of the market
(*c*) Meeting or preventing competition
(*d*) Target rate of return (rate of return on investment or on net sales)
(*e*) Maximising profits

2 External Factors External factors are generally beyond the perfect control of an organisation but they have to be considered in deciding the price of a product These factors include demand competition the influence of distribution channel, political consequences, legal aspects etc

Demand In consumer oriented marketing the consumers influence the price The value of a given product to the consumer is the prime consideration Every product has some utility for the buyer It gives the buyer service, satisfaction pleasure the total of which is its value to a particular consumer. If the consumer does not consider the value of the product worth the price he will refuse to buy Thus the multiplicity of choices available to the consumer the first influence dictating the manufacturer in pricing the product is the consumer himself Marketing research makes it possible to understand and determine the total demand and also the rate at which this demand must be met

Competition No single manufacturer is free to fix his price without considering competition unless he has a monopoly In today's complicated market it is difficult to determine how far competition ranges from that of direct substitutes to that of other items which may compete Convenience goods have a wide range of competing products while luxury or speciality goods have comparatively narrow group of competitors To avoid competitive prices a firm may decide that its products may be sufficiently different from that of the others This is achieved through methods of advertising and branding Sometimes a higher competitive price may in itself differentiate the product This is known as 'Prestige Pricing But this is possible only when the product is backed by perfect quality Many products are sold below cost mostly in the initial stages This is referred to a Marked down Prices

Distribution Channels Distribution channels also sometimes affect the price As a rule the consumer knows only the retail or ultimate price But there are middlemen working in the channel of distribution between the manufacturer and the consumer Each one of them has to be compensated for the services rendered This compensation must be included in the ultimate price the consumer pays Because of these costs it sometimes happens that the price of a product becomes so high that the consumer rejects it

Legal Restraints Government interference, buying of taxes are other considerations which also affect the pricing of products

12.2 What are the basic pricing policies ? Distinguish Cost oriented pricing Demand oriented pricing, Competition oriented pricing

PRICING POLICIES

A manufacturer is not really free to adopt his own pricing policies Any good pricing policy must be aimed at offering a reasonable price to the consumer, ensuring a fair return on investment to the manufacturer and providing reasonable price stability In addition good pricing policy meet competition and comply with legal requirements Such a policy must also have some reasonable price stability

Correct pricing involves finding the best possible exchange value for the products The modern manufacturer must not only know the worth of his own products but also what competition offers, what substibutes are available Also he must have and undestanding of costs

FUNDAMENTALS WHICH MAY AFFECT PRICE DECISIONS

Consumer Situation

Utility to the buyer,
Return to the buyer
Comparable and substitute products
Custom and customary prices
Prestige position of the product and brand
Presence of buying habits and motives
Psychological aspects

Csst Considerations

Cost of production—historical
Cost of production—Future,
Volume anticipated

BASIC PRICINC POLICIES

It is quite unfortunate that many firms have no clear pricing policies The following are the basic policies recognised for pricing

1 Cost oriented pricing policy,
2 Demand oriented pricing policy
3 Competition oriented pricing policy

COST-ORIENTED PRICING POLICY

It is also 'cost plus pricing This pricing method assumes that no product is sold at a loss, since the price covers the full cost incurred Definitely costs furnish a good point from which the competition of price could begin Fixing a tentative price is easier under this method But the criticism against this policy is that it ignores completely the influences of competition and market demand Cost plus policies are generally used by retail traders and in manufacturing industries where the production is non standardised. The method of pricing here is based on simple arithmetic adding a fixed percentage to the unit cost Thus the retail price of a particular item might be the manufacturer s cost plus his gross margin plus the wholesalers gross margin plus the retailer s gross margin This method is known as 'sum of margin method

Another common method used under cost oriented pricing is known as 'Target Pricing This is invariably adopted by manufacturers who fix a target return on its total cost

Manufacturers these days use Break Even Analysis for deciding cost plus pricing One great defect of this pricing policy is that it ignores the demand factor The break even analysis helps to calculate in advance the likely relationship between the cost, volume and profit over various time periods It has also proved to be highly useful technique for the broad planning of manufacturing facilities

The break even analysis helps a firm to determine at what level of output the revenues will equal the costs assuming a certain selling price For this purpose the cost of manufacture is also *divided into two parts* Fixed and variable costs Fixed costs (i e, Rent Rates Insurance etc) theoritically remain constant over all levels of output Variable costs (labour and material) vary with changes in output level Fixed costs naturally decreases per unit when production increases Variable costs on the other hand change as production varies, i e no production no variable cost.

The break even point therefore is a point where there is neither loss nor profit This is found out by using the following equation

$$B\,E\,P = \frac{\text{Total Fixed Costs}}{\text{Margin of Contribution}}$$

Margin of Contribution=Unit Selling Price—Unit Variable Costs.

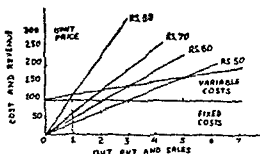


Fig 12 1 *Graphical Representation of Break Even Analysis*

'X denotes break-even points at various unit sale prices The graph shows that at Rs 60 the firm has to sell 3 units at Rs 70, 2 units at Rs 80, 1 unit etc.

Break even analysis helps to establish prices only when the costs of production remain reasonably constant Another trouble is found in accurately forecasting demand at various prices

DEMAND ORIENTED PRICING POLICY

As the name suggests under this method of pricing the demand is the pivotal factor Price is fixed by simply adjusting it to the market conditions A high price is charged when or where the demand is intense, and a low price is charged when the demand is low Price descrimination is u ually adopted under such market situations

COMPETITION ORIENTED PRICING POLICY

Most companies set prices after a careful consideration of the competitive price structure Deliberate policies may be formulated to sell above, below or generally in line with competition One important feature of this method is that there can not be any regid relation between the price of a product and the firms own cost or demand Its own cost or demand may change but the firm maintains its prices Conversely the same firm will change its prices when the competitors change theirs, even if its own cost or demand has not altered

12.3 Analyse the various kinds of prices charged by the firms for their products Under what circumstances would you recommend

1 Skimming pricing

2. Penetration pricing

BASIC KINDS OF PRICING

Adopting the basic principles of the three pricing policies (1 Cost oriented policy 2 Demand oriented pricing policy, 3 Competition oriented pricing policy) firms may choose various kinds of pricing for their products These are discussed below

1 Odd Pricing The term odd pricing is used in two ways It may be a price ending in an odd number or a price just under a round number Such a pricing is adopted generally by the sellers of speciality or convenience goods Bata shoe company for example has adopted odd pricing for its shoes at say Rs 49 95, Rs 55 90

There is no conclusive evidence that such a pricing would attract more sales In fact, it is stemmed but from the 'psychological pricing There are certain critical points in pricing and a price just below that would attract buyers as they would feel it is a marked down price This could also be graphically expressed

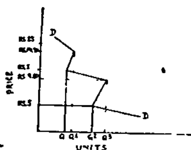


Fig 12 2 Odd Pricing

The graph shows that when price is Rs 9 80 the sales unit will be equal to Q_3 whereas at Rs 10 the unit of sale will be Q Thus for a difference of Rs 0 20 the increase in sale will be $Q-Q_3$

2 Psychological Pricing The price under this method is fixed at a full number The price setters feel that such a price has an apparent psychological significance from the view point of buyers For example it is stated that there are certain critical points at prices such as 1, 5 and 10 The experiments conducted proved that a change in price over a certain range has little effect until some critical point is reached If there are a number of such

critical points for a given commodity the demand curve would look like the one in the following diagram

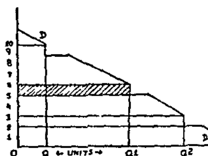


Fig 12.3 Psychological Pricing

It is differs from the concept of odd pricing in that the curve does not necessarily have any segments positively inclined For example there will be no change in the quantity sold when the price ranges between Rs 5 and 6

3 Customary Prices. Such prices are fixed by custom Sweet manufacturers price their products in such a way that a particular variety of sweets is sold at approximately the same price Soft drinks are also priced in the same manner Such a pricing is usually adopted by chain stores

4 Pricing at the Prevailing Prices This kind of pricing is undertaken to meet the competition Hence such a pricing is also termed as 'pricing at the market Such a strategy presumes a market inelasticity of demand below the current market price In other words, a price above those of the competitors would sharply bring down sales while a lawer price would not significantly increase them Obviously such a policy is aimed at avoiding price competition and price wars In such circumstances it is not possible to have any further price reduction

5 Prestige Pricing Many customers judge the quality of a product by its price Generally prestige pricing is applied to luxury goods where the seller is successful in creating a prestige for his product The price fixed normally will be in excess of those asked for nearperfect substitutes In such cases sales would be less at low prices than at high prices The merchandise can be priced too low as well as too high Customers may fear that at the low price it can not be of good quality, and will actually buy more at a some-

what higher price than they would at a lower price[1] Prestige pricing is graphically expressed as

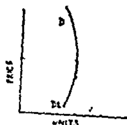


Fig 12 4 Prestige Pricing

6 **Price Lining** This policy of pricing is usually found among retailers Technically it is closely related to both psychological and customary prices Under this policy the pricing decisions are made only initially and such fixed prices remain constant over long periods of time Any changes in the market conditions are met by adjustments in the quality of merchandise In other words, the decision is made with reference to the prices paid for merchandise rather than the prices at which it will be sold

7 **Geographic Pricing** This policy of pricing is sometimes used where a manufacturer serves a number of district regional markets He can adopt different prices in each area without creating any ill will among the customers For example petrol is priced in this way depending on the distance from the storage area to the retail outlet It is evident from this example that a price that is quoted without transportation cost may be a different price than a price quotation on which the seller agrees to absorb such costs There are three methods that relate to the absorption of distribution cost in the price

(a) F O B Pricing
(b) Zone Pricing
(c) Basic Point Pricing

F O B (Free on Board) may be of two types F O B origin and F O B destination In the first case the buyer will have to incur the cost of transit and in the latter the price quoted is inclusive of transit charges

1 Quoted in the article "*Price Policies and Theory* by **Edward P Hankins**, Journal of Marketing Vol 18 Jan 1954, p 233—240

Zone pricing denotes some amount of equality of prices in the same zone For instance, if India is divided as South Zone, North Zone, East Zone and West Zones, a product will be sold in the South Zone at the same price irrespective of the difference in distance between two places inside the zone

Basic point pricing system charges the buyer the transportation cost from the basing points to the buyer's location

8 **Dual Pricing** When a manufacturer sells the same product at two or more different prices it is said to be dual pricing This is possible only if in the same market, different brands are marketed This method should not be confused with the Geographical pricing Therefore the same product the prices are different at two places The price differentials is justified on account of varying distribution costs. The dual pricing is adopted in Railways For the same distance of travel in the same very vehicle, the services are sold to passengers at different prices under different classes (Except for a few minor advantages, first class passengers do not gain anything either in speed or in the distance travelled by them) This is also referred to as "discriminatary pricing'

9 **Administered Pricing** This applies to the practice of pricing the products for the market not on the basis of cost competitive pressures or the laws of supply and demand but partly on the basis of the policy decisions of the sellers In theory, this would mean that the seller disregards all other considerations except his own desire for maximising profits The administered prices usually remain unchanged for substantial periods of time In the same sense every price is an administered price The extent the management makes conscious pricing decision of its own it is an administered price

10 **Monopoly Pricing** New product pricing is in essence monopoly pricing Since competition is absent, the seller has a free hand in fixing the price Such pricing will be on the principles of ' what the traffic will bear' Such a price will maximise the profit

11 **Skimming Prices.** This is also termed as "Skim the cream pricing' —**(Stanten)** It involves setting a very high price new product initially and to reduce the price gradually as competitors

enter the market It is remarked, "launching a new product with high price is an efficient device for breaking up the market into segments that differ in price elasticity of demand'[1]

The initial high price serves to skim the cream of the market that is relatively insensitive to price In case of the text books this method is followed by having a high price for the first edition and lesser prices for subsequent editions When an item is clearly different and the right price is not apparent, this method may be used This approach to pricing is ineffect, an experimental search for the right price and it may result in a market determined price The method starts with high (skim) price and moves the price downward by steps until the right price is reached The idea is that when is unsure about what price to charge, it is advantageous to begin with too high an initial price and more systematically downwards This procedure is thought better than starting the price experiment at too low a price and subsequently increasing the price It is therefore, a self or automatically administered price

12 Penetration Pricing This method is just opposite to the skimming method outlined above The skiming price policy is most convenient and profitable in the case of new products especially in the initial years

Penetration pricing on the other hand, is intended to help the product penetrate into markets to hold a position This can be done only by adopting a low price in the initial period or till such time the product is finally accepted by the customers. This method of pricing is most common and is desirable under the following conditions

(a) When sales wolume of the product is very sensitive to price

(b) When a large volume of sales is to be effected,

(c) When the product faces a threat from competitors, and

(d) When stability of price is required

One important consideration in the choice between skimming and penetration price policies is fundamentally based on the ease and the speed with which the competitors can bring out substitutes products But penetration price policies are usually considered when substitute product is marketed Low starting price sacrifices

1 **Joal Dean** '*Pricing a New Product*, The Controller, vol 23, No 4 April 1965, pp 163—165

short run profits for long run profits and, therefore, discourage potential competitors

13 Expected Pricing In this method the price that will be accepted by the consumers is found out Naturally a fixed price cannot be decided before hand and hence price range is offered The response of customers to the price is analysed and later a price is fixed

14 Sealed Bid Pricing This method is followed in the case of specific job works Government contracts are usually awarded through a system known as 'Tenders' The expenditure anticipated is worked out in detail and the competitors offer a price (known as contact price) The minimum price quoted is accepted and the work is awarded to the party

15 Negotiated Pricing The method invariably adopted by industrial suppliers Manufacturers who require goods of highly specialised and individually designed nature often negotiate and only then fix the price In the case of automobiles various components required for the manufacture are not actually produced by the companies marketing the automobiles They find out the suppliers and entrust them with the work of manufacturing and supplying various components This ensures fixed prices, or otherwise the price of their final product would also go up Under such circumstances the prices are negoliated and fixed

12.4 Discuss the factors which you would take into account while deciding the price for a newly manufactured product

PRICING STRATEGY OF NEW PRODUCT

Pricing a new product is an art. It is one of the most puzzling marketing problems faced by a firm Pricing is important in two ways

(i) It affects the quantity of the product to be sold

(ii) It determines the amount of revenue of a firm

New products when introduced appeal to many as new items. But this distinctiveness created by novelty is only temporary The price factor which may be ignored initially would become important when the product becomes an ordinary one because of being constantly used Furthermore competitors may also appear in the market Therefore, the new products are based to be priced especially with a right price In correct pricing will definitely lead

to product failure For setting a price on a new product, three guide lines are to be adopted

1 Making the product accepted,
2 Maintaining the market,
3 Retaining the profits

There are two options available for pricing a new product :- Skimming and penetration pricing

If a product is entirely new in all respects, skimming method could be used A strategy of high prices coupled with large promotional expenditure in the initial stages has proved successful in a number of cases Skimming pricing is recommended on account of the following reasons

(i) Initial sales will be less
(ii) Hope to take the cream of the market through high prices
(iii) As pointed out, people may like to own a new product even at a higher cost
(iv) Helps to develop demand as the price is gradually reduced
(v) High sales volume on account of higher price

However, *it should be noted that high initial prices may also* prevent quick sales

The second option is to adopt penetration pricing. The conditions where such a pricing policy would be suitable have been *explained already (Please see answer to previous question)*

A comparative analysis of these two pricing systems reveals that both these methods are not free from drawbacks The difference between these two methods could be illustrated through the follow ing example When the electric clock was first introduced, consumers were reluctant to buy it because it was relatively low priced when compared to a quality spring wound clock. Consumers apparently felt that a quality clock could not be sold so cheap The clocks were withdrawn from the market and reintroduced subsequently at a higher price that sounded attractive after they sold more clocks successfully [1]

In the case of new products pricing has to be made with little knowledge of demand cost and competition. The new product has

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1 **Paul and Green** "*Bayesian Decision Theory in Pricing Strategy*", Journal of Marketing, Jan 1965

also to bear the cost of promotion or creating a market. The initial cost therefore, will be definitely greater The cost incurred in constructing a proper channel of distribution may also be accounted for in pricing All these factors have to be taken into account in pricing a new product. Thus in the pioneering stage the marketer can either use price skimming or penetration pricing strategy

Conditions making Penetration Pricing Appropriate

1 When the new products demand is highly price elastic, even early in the market pioneering stage

2 When the marketer can realize substantial manufacturing and marketing economies if, he obtains a large sales volume (such economies substantially bring down average total costs)

3. When thhe marketer expects strong competition very soon after introducing the product, *i e*, when he expects the products market pioneering stage not last long

4 When there is little or no elite market for the product *i e*, a market segment made up of buyers who will probably buy regardless of price

Competitors Likely Reactions

Probably, the innovating marketer's single most important consideration in choosing between price skimming and penetration pricing is the relative ease and speed with which competitors can launch their own version of their new product. For revolutionary new products which have large potential markets, penetration pricing is useful and appropriate strategy This is because the existence of a large potential market is almost certain to attract many large competitors soon after the introduction of the innova tion Penetration pricing helps to discourage prospective competitors by making the market appear less profitable than if the innovating marketer uses a price skimming strategy If the marketer expects that competitors will need considerable time and will meet great difficulties in coming up with their versions of the product type, then of course, price skimming is appropriate strategy clearly too, if the marketers [new product is only slightly distinctive thus his best choice is penetrating pricing at a price either at or very slightly above of the competitive substitutes

POINTS AT A GLANCE

1 **Price** The exchange value of a good or a service in terms of money price and pricing policies are among the most important problems that confront management today

2 **Factors that influence price decisions**

(a) Internal—Cost of production and objectives of the firm.
(b) External—Demand competition distribution channels

3 **Fundamentals which may affect price decisions**

(a) Consumer situation—Utility to the buyer, return to the buyer, substitue products, customs buying motives
(b) Cost considerations—Historical cost, Future cost Volume anticipated

4 **Basic Pricing Policies**

(a) Cost Oriented,
(b) Demand Oriented and
(c) Competition Oriented pricing policy

5 **Use of break even point analysis in pricing** Break even point is a point where there is neither loss nor profit

$$B\ E\ P = \frac{\text{Total Fixed Costs}}{\text{Margin of Contribution}}$$

Margin of Contribution=Unit Selling Price—Unit Variable costs

6 **Various Kinds of Pricing**

1 Odd Pricing
2 Psychological Pricing
3 Customary Prices
4 Pricing at the Prevailing
5 Prestige Pricing
6 Price Lining
7 Geographic Pricing
8 Dual Pricing
9 Administrated Pricing
10 Monopoly Pricing
11 Skimming Pricing
12 Penetration Pricing
13 Expected Pricing
14 Seated bed Pricing
15 Negotiated Pricing

7 Pricing strategy of new products (market pioneering) pricing two options

(*a*) Skimming Pricing,
(*b*) Penetration Pricing

8. Pricing policies and strategies under different situations

(*i*) Strategy with competitive situation
(*ii*) Strategy under long term monopoly
(*iii*) Strategy under lasting distinctiveness of the product
(*iv*) Strategy under perishable distructiveness
(*v*) Strategy under little distinctiveness

9 Use of Breakeven Analysis for price setting